

Dean •

ALFRED L. SEELYE

Editor

ELI P. COX

Executive Editor

ANNE C. GARRISON

Editorial Board

JUNE BEESON

ROGER L. BOWLBY

HARRY G. BRAINARD

WILLIAM J. E. CRISSY

GARDNER M. JONES

MARY VIRGINIA MOORE

FRANK MOSSMAN

JOHN L. O'DONNELL

ESTHER B. WAITE

HAROLD WEIN

BUSINESS TOPICS

AUTUMN 1961

VOL. 9

NO. 4

Business Topics is published quarterly by the Graduate School of Business Administration, Michigan State University, East Lansing, Michigan. It is a service of the University for all those interested in business and economic matters. The articles published often present points of view which may not be held by either the editors or a large proportion of the readers. Since business and economic problems are often complex and many-sided, writers are given considerable latitude in the expression of their own opinions. This editorial policy is designed to foster stimulating articles and not to indoctrinate the reader. Permission to reprint material will be granted upon written request.

Second class postage paid at East Lansing, Michigan.

Contents

AUTUMN 1961

VOLUME 9

NUMBER 4

- 5 : Our Contributors

- 7 : The Wonderful World of Antitrust
EARL W. KINTNER
EDWIN S. ROCKEFELLER

- 13 : Profiles of Government Executives
W. LLOYD WARNER, PAUL P. VAN RIPER
NORMAN H. MARTIN, ORVIS F. COLLINS

- 25 : Five Major Economic Problems of the 1960's
IRA T. ELLIS

- 37 : The Brazilian National Automotive Industry
RICHARD F. GONZALEZ

- 49 : A Principled Approach to Overseas Taxation
JOHN FAYERWEATHER

- 60 : The Emerging Theoretical Structure of Accountancy
NORTON M. BEDFORD
NICHOLAS DOPUCH

- 71 : Aging and Retirement: A Union Responsibility
GORDON J. ALDRIDGE

- 78 : Index to Volume 9

Russia and the Peace of the World (1917)

Enthusiastic as all liberals must be over the downfall of the Russian autocracy, yet it is impossible to rejoice at ease, while grave questions as to the probable trend of Russian foreign policy lie unanalyzed just beneath the threshold of consciousness. The old Russia loomed gigantic, in the popular imagination, as the champion of the orient, the terror of western Europe. An autocracy chiefly of German origin, a bureaucracy permeated by German influence, held the Russian giant bound and blindfold. But now the giant is free. Will he not gather forces that will be capable of bursting any barrier that Germany can erect for the defense of the West? Will he not sweep down from eastern Siberia and reduce China to his sway and Japan to vassalage? Are the Himalayas a sufficiently lofty wall to protect India against a regenerated Russia? These are questions which require at least a reasoned negative before we conclude that the Russian revolution can result only in good.

We cannot infer from the liberal insistence upon a victory over Germany that the Russian state is henceforward to be aggressive, imperialistic. Other considerations are paramount in any forecast of the future.

As territorial expansion was an inherent necessity of the Russian autocratic state, so internal developments are an inherent necessity of Russian liberalism. Industrialization must be carried to a higher degree than the most progressive autocracy would dream of. For decades to come Russian industry will need no foreign markets. Russia will have no surplus capital to export for generations.

For a time, at any rate, the energies of the Russian liberal state will be prompted by domestic development. If our attempts to evaluate the internal problems confronting the liberals of Russia are correct, I am forced to conclude that this period of internal development must extend through decades, and probably through generations. It will be long before liberal Russia will have time to menace the peace of the world. And before it has time the habit of menacing the peace of the world is likely to be suppressed by a rational international organization.

Editorial, "Liberal Russia and the Peace of the World,"
The New Republic, X, 125 (March 24, 1917), 214-15 (abridged).
Reproduced by permission of the editors.

Our Contributors

Gordon J. Aldridge is Professor and Director of the School of Social Work, Michigan State University. He holds B.A., M.A. and M.S.W. degrees from the University of Toronto and a Ph.D. degree from the University of Michigan. Besides participating as instructor in various institutes and workshops on aging and on psychiatric social work, he has been a technical consultant to the White House Conference on Aging and on the Social Work Advisory Committee of the U. S. Department of Health, Education and Welfare. He is Chairman of the Social Welfare Research Committee of the International Association of Gerontology as well as a member of its Executive Board. A forthcoming book, *Social Welfare and Aging*, is currently in press.

Norton M. Bedford is Professor of Accountancy and Chairman of the Ph.D. in Business Committee, University of Illinois, where he has taught since 1954. He taught from 1950 to 1953 at Washington University (St. Louis). He holds B.B.A. and M.B.A. degrees from Tulane University and a Ph.D. degree from Ohio State University. He has served as business consultant to the New Orleans Stock Exchange, the state of Louisiana, and New Orleans Public Service, Inc. He is vice-president of the American Accounting Association, and a member of the American Institute of Certified Public Accountants, the American Statistical

Association, the National Association of Accountants, and the American Economic Association. Professor Bedford has published numerous articles and reviews in *Controller*, *Cost and Management*, *Accounting Review*, *Journal of Accountancy*, *Washington University Law Review* and others. He is also co-author, with Arthur R. Wyatt and Kenneth W. Perry, of a textbook, *Advanced Accounting*.

Nicholas Dopuch is Assistant Professor of Accountancy in the Graduate School of Business, University of Chicago. He holds a B.S. degree from Indiana State Teachers College and both the M.S. and Ph.D. degrees from the University of Illinois. He has taught at the University of Illinois, where from 1958 to 1960 he held a Ford Foundation Pre-Doctoral Fellowship. The *Accounting Review* recently published a book review and an article by Dr. Dopuch. He is a member of the American Accounting Association and the National Association of Accountants.

Ira T. Ellis has been Economist for E. I. du Pont de Nemours and Company since 1953. He holds the B.A. degree from the University of Delaware and the M.B.A. degree from Harvard Business School. He left college teaching to join Sears, Roebuck and Company, where he was associated with merchandising in the retail stores. Mr.

Ellis serves as a member of the Board of Directors of the Bank of Delaware and of the Board of Managers of the Wilmington Savings Fund Society, a mutual savings bank. He has conducted seminars in Business Economics and Forecasting for the American Management Association. He is a member of the Economic Forum of the National Industrial Conference Board and a Visiting Economist for the National Association of Manufacturers.

Richard F. Gonzalez is Assistant Professor in the department of Personnel and Production, Michigan State University. He holds both the M.A. and the Ph.D. degrees from the State University of Iowa. Before coming to Michigan State University in 1956 he taught at the State University of Iowa and the University of Oklahoma. During 1958-60, he served as consultant and staff member, Escola de Administração de Empresas de São Paulo, Brazil. He is a member of the Academy of Management and the Midwest Economics Association. His articles have been published in the *Journal of the Academy of Management* and the *Journal of the EAESP*.

John Fayerweather is Managing Editor of *The International Executive*. He holds the B.S. degree from Princeton University and the degrees of M.B.A. and D.C.S. from Harvard University. He has taught in the Harvard Business School, the Columbia Business School and at present is Adjunct Associate Professor of International Business, Graduate School of Business Administration, New York University. Mr. Fayerweather has served on the For-

eign Commerce Committee of the U. S. Chamber of Commerce since 1956. His recently published books are *The Executive Overseas*, 1959, and *Management of International Operations*, 1960.

Earl W. Kintner is former Chairman of the Federal Trade Commission. He joined the FTC in 1948, serving there in several capacities until 1959 when he became a member and subsequently, at President Eisenhower's designation, Chairman of the Commission. Upon the expiration of his term of office on March 21, 1961, he became a member of the Washington, D. C. law firm of Arent, Fox, Kintner, Plotkin and Kahn. He holds the A.B. degree from DePauw University and the J.D. degree from Indiana University School of Law. In 1946-48 he served as Deputy U. S. Commissioner of the United Nations War Crimes Commission. He has served as President of the Federal Bar Association and as officer and member of numerous other legal organizations. In 1958 he was Adjunct Professor, New York University School of Law.

Edwin S. Rockefeller is an attorney associated with the Washington, D. C. law firm of Arent, Fox, Kintner, Plotkin and Kahn. He is also consulting editor for the Bureau of National Affairs' *Antitrust and Trade Regulation Report*. He holds A.B. and LL.B. degrees from Yale University. In 1958-59 he acted as Assistant to the General Counsel of the Federal Trade Commission and in 1959-61 as Legal Assistant and Executive Assistant to the Chairman of the FTC. He was chairman of the Federal Bar Association's Committee on Antitrust and Trade Regulation

(Continued on page 80)

EARL W. KINTNER
EDWIN S. ROCKEFELLER

The Wonderful World of Antitrust

*An evaluation of antitrust problems
with a program for their solution.*

When the cell doors clanged shut in Norristown, Pennsylvania, last winter on seven corporate executives convicted of violations of the Sherman Act, the echo was heard in meetings of boards of directors and other management councils throughout the nation. The unprecedented jailing of corporate officials aroused wide and sensitive interest in the antitrust laws throughout the business community.

The government had obtained price-fixing convictions of practically all of the leading manufacturers of heavy electrical equipment. There were 20 indictments, involving 29 corporate defendants and 44 individuals. After pleas of guilty or no contest, the defendants were fined a total of nearly \$2,000,000. Seven individual defendants received thirty-day jail sentences. Twenty-four other jail sentences were imposed but suspended. The convicted corporations now face a multitude of

suits for treble damages brought by customers claiming injury as a result of the violations. The federal government and a number of municipalities have shown a real determination to pursue treble damage claims. Public utilities may also seek redress. Civil proceedings to enjoin further violations by the government have been filed. The entire matter was publicly reviewed in a Senate committee investigation. Through all this, the defendants have sustained an expensive public relations loss resulting from much adverse publicity.

It is not our purpose to add to the epithets heaped on these law violators. We merely cite the case as a dramatic example of the dangers inherent in indifference, ignorance, and misunderstanding which have characterized reactions in some quarters to sporadic antitrust enforcement efforts by government. We cite it too as perhaps,

with respect to one or more of the firms involved, an example of the difficulty of educating operating officials in antitrust responsibilities.

The electrical equipment case is an object lesson in the dangers of bureaucracy in private business. In business, as in government, the development of large organizations with division of responsibility can allow habits to creep in which management at all levels may later greatly regret. We believe that management and marketing officials will be well advised to remain alert to the prohibitions of the antitrust laws and to their individual responsibility for compliance with those laws. Enforcement at times has been a sham battle between paper tigers, but it can occur, as it did in the electrical equipment cases, that business executives and their organizations may be badly scratched if they have acted without appropriate deference to the antitrust laws.

CERTAINTIES, UNCERTAINTIES

Interpretation of the antitrust laws presents many questions to which there are no certain answers. But it should not be concluded that there are no certainties. The electrical equipment manufacturers were convicted for violations of absolute prohibitions as to which there need be no uncertainty. In 1956, the Chief Justice of the United States, speaking for the Supreme Court with the concurrence of every member of the Court, stated:

It has been held too often to require elaboration now that price fixing is contrary to the policy of competition underlying the Sherman Act and that its illegality does not depend on a showing of its unreasonableness, since it is conclusively presumed to be unreasonable. It makes no difference whether the motives of the participants are good or evil;

whether the price fixing is accomplished by express contract or by some subtle means; whether the participants possess market control; whether the amount of interstate commerce affected is large or small; or whether the effect of the agreement is to raise or to decrease prices.

Here, then, is one certainty. Agreement on prices between competitors is absolutely prohibited, and is a violation of the criminal law of the United States.

Interpretation

Other types of agreement are also conclusively presumed to be unreasonable and in violation of law. The Assistant Attorney General in charge of the Antitrust Division has recently stated his view that these include:

- agreements not to compete which are not ancillary to legitimate contracts;
- agreements among competitors to divide the market by allocation of either territories or customers;
- group boycotts of any character;
- combinations which foreclose competitors from any substantial market by tie-in agreements;
- pooling of profits and losses by competitors.

Although the Sherman Act prohibits *every* contract combination or conspiracy in restraint of trade, the courts long ago decided they would not take the word "every" literally, but would examine the "reasonableness" of each restraint under a so-called rule of reason. Nevertheless, as to the categories mentioned above, examination of reasonableness is foreclosed, and any agreements of the sort mentioned are illegal.

Uncertainties in legal prohibitions exist where a conclusion of violation

depends upon an examination of the competitive context or effect on competition of the particular challenged practice. In this area, it may be impossible to know, without an exhaustive market study, whether a particular action is legal or illegal. Discriminations in price are illegal only where their effect may be substantially to lessen competition or to injure or prevent competition between certain classes of competitors. Mergers may be illegal only where they meet similar tests. The average business man is bound to have some difficulty evaluating the application of such prohibitions to his daily business situations.

If one knows that the law clearly states "anyone who spits on the platform will be fined \$5.00," the alternatives available seem rather clear. But if one knows only that discrimination in price is prohibited

where the effect may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them

provided that due allowances for differences in certain cost may be made and provided that a seller may show that his lower price was made "in good faith to meet an equally low price of a competitor" and provided six other things may or may not occur—perhaps the alternatives are not so clear.

Conflicting Philosophies

Interpretation of provisions in the antitrust laws is made doubly difficult because these laws embody conflicting values held by our society. It is difficult to isolate specific policies behind the entire body of antitrust law or under-

lying any particular provision. It has become a cliché in antitrust circles to say that, if the Sherman Act were introduced as a new bill in any current session of Congress, it would never be passed. Whether or not this is true, there is certainly a measure of truth in the observation that the country is far from unanimous in its acceptance of any particular antitrust goal or concept, except to agree on the basic necessity of an antitrust program.

Nineteenth Century Liberal Economics. Some look at the antitrust laws from the point of view of nineteenth century liberal economic theory. The emphasis here is on the long-run benefits to the economy and the public of competitive free markets. Progress is assured through invention, innovation, and free enterprise. More and better services are made available through each independent business man's pursuing intelligently his own self interest. The free market, with laws of supply and demand, is looked to for regulation of prices. Producers, distributors, and retailers may come and go, succeed or fail, but the market goes on forever.

Protectionism. Without necessarily rejecting these notions, some find in the antitrust laws a policy of protecting "small business." Without a sufficient number of buyers and sellers, the market can hardly remain "free." It must then become the role of government to see to it that not too many buyers or sellers are permitted to fail economically. The emphasis may here come more on the politics than on the economics of the matter. The emotions are stirred by the plight of the small entrepreneur battling with

the corporate giant. In order that political power may remain widely dispersed, we must insure that economic power does not accumulate entirely in the hands of a few corporate managers but remains dispersed throughout a nation of resourceful, independent, self-reliant, sturdy citizens.

Consumer Interest. A third view emphasizes the interest of the public, and more particularly the public's interest as consumers. Strictly speaking, such considerations are irrelevant to the antitrust laws. But with political pressures on behalf of "the consumer" coming more and more to be reflected in and exploited by the Congress and others, this factor cannot be overlooked.

Ambiguity

These partly overlapping and partly conflicting approaches to the antitrust laws will continue to insure ambiguity and conflict in the interpretation of these laws.

Furthermore, there exists a sometimes grudgingly accepted policy that in some areas of our economy we should maintain little or no pretense of a free market. In agriculture, in transportation, in communications, and in labor we have more or less sacrificed the antitrust approach for some other economic, social, or political consideration thought to be paramount. Considerations of national defense have also, at times, taken priority over antitrust policy, as have conditions of economic depression. Our commitment to free enterprise varies from industry to industry, from war to peace, and from prosperity to recession.

THE BLEAK PICTURE

Faced with uncertainty, the business man may very likely choose one of two courses, either of which is a mistake: ignore the prohibitions altogether and take his chances with the authorities or over-react to the possibility of illegality and forego legitimate business advantage with resulting damage to his own business and to the economy. The consequences of the former course are obvious from the electrical equipment manufacturers' case. The consequences of the second course, while less dramatic, may be equally disastrous.

All this is discouraging enough, but there is a further aspect to the situation adding to the difficulty. Although ours is said to be a government of laws and not of men, the laws are not self-executing. We depend, as we must, for the execution of the laws upon enforcement officials who are themselves less than omniscient about the meaning of the laws and about the business situations to which they must apply the laws.

Human Factors

There are many decisions to be made in enforcing the antitrust laws. Government officials of various degrees of ability and experience must decide what situations to investigate, how to investigate, what proceedings, if any, to bring in what tribunals and seeking what results. Without questioning the motives or intelligence of any government officials past or present, one must face the fact that many such officials have never had the opportunity to observe the operations of business and industry from the point of view of a private entrepreneur.

The brightest fellow in the world can study all that's available on water skiing, but unless he tries it for himself, his understanding will always be less than complete. We suspect that something of the same is true about business. Without actual business experience, the enforcement official may be short on understanding of the actual business realities in any antitrust situation.

The Realities

The self-respecting enforcement official must have a sincere belief in the policy of the law he is expected to enforce. Lacking a complete background in business actuality, the enforcement official's sincerity may lie in an ideological attachment to certain conceptual clichés which were less than perfect in conception and have suffered from the passage of time. Most federal officials strive to administer the laws fully and fairly. Nevertheless, the realities of Washington existence, on which the enforcement official must surely become expert if he is to advance and survive, sometimes require riding with or in opposition to various political pressures. Even the official who is oblivious to such pressures, may feel a desire to make a good record, to "win" cases.

The antitrust world then is one in which the regulator and the regulated seek to apply or avoid the application of confusing and uncertain rules, each having little understanding of the point of view of the other. A bleak picture indeed!

PREVENTIVE COUNSELING

The existence of the legal profession provides the one ray of hope in this

dreary picture, though the hope may be a slim one where the profession does not live up to its highest traditions. The lawyer as an independent professional man can, if he will, act as the rationalizer of the antitrust process. The legal profession has within it the capacity to supply those who interpret the laws with an understanding of both the enforcement official's point of view and the point of view of legitimate business enterprise. The truly effective antitrust practitioner must learn to interpret one to the other. Herein lies one great advantage of prior government service for the practice of law. While some can develop an understanding of government and of the enforcement official's point of view without ever having served the government's side, many cannot.

We are firm believers in the value of preventive counseling and the avoidance of costly litigation. There are those who take a different approach, urging their clients to fight the government tooth and nail so long as the client's money lasts.

Federal Trade Commission

Litigation is always economically wasteful. In criminal matters under the antitrust laws, there may be no alternative. But in civil matters, the flexible procedures of the Federal Trade Commission present a potential method, as yet not fully tried, for the settlement of disputes between antitrust enforcement officials and the business community over interpretations of the antitrust laws and their application to business facts. We believe that there is great potential in the Federal Trade Commission for obtaining that measure of compliance

with the laws necessary for protection of the free market, protection of the small business man, and protection of the public.

We hope, and see reason to believe, that the Federal Trade Commission will continue efforts to encourage cooperation from the business community in compliance with the antitrust laws along lines begun during the previous administration. It is a wise course for business and a wise course for those entrusted with the responsibility of government regulation.

In his report on regulatory agencies to the President-elect last December, Mr. James M. Landis recognized a part of the Commission's potential, in stating "the industry-wide consultation program can cure in a few weeks competitive ills that would require several years of formal litigation to cure". This statement of Dean Landis is worthy of continued repetition. There is much that can and should be done to bring home to the business community, the practicing lawyer, and the enforcement official the wisdom of this statement.

A PROGRAM

We would urge upon management and marketing officials at all levels consideration of the following program:

1. Obtain a firm grasp on antitrust fundamentals where the rules are certain and avoid obvious violations;

2. Encourage seminars and indoctrination programs toward this end within the corporate organization; (This alone is not enough. From personal knowledge, we can testify that General Electric Company had an ambitious program of educating operational and sales personnel in the requirements of the law at the time of its recent brush with the Sherman Act.) Such a program must be continual and carried to all levels and supplemented by resolve to:

3. Maintain a continuous review of business practices by qualified counsel seeking at all times alternatives which minimize antitrust risks without foregoing legitimate business advantages;

4. Seek methods for consultation and exchange of views with enforcement officials on meaningful methods of compliance with the law.

This approach, it seems to us, while requiring restraint and depriving some men of the emotional satisfaction of "showing those bureaucrats in Washington how wrong they are", offers the best hope of uninterrupted and profitable business operations and the satisfaction of preserving the economic and political system which has built our great country.

W. LLOYD WARNER, PAUL P. VAN RIPER,
NORMAN H. MARTIN, ORVIS F. COLLINS

Profiles of Government Executives

*A study of the background and education
of civilian and military officials, as
compared with those of business leaders*

The men who occupy high position in the great civilian and military hierarchies of the federal government of the United States, for good or evil, exercise increasing power. They are far more influential, both potentially and in fact, than were their nineteenth-century predecessors, or even those of only three or four decades ago.

Americans may argue over the merits and necessities of this trend in public affairs, but all would agree that the increased military and political strength of their country in world affairs, supported by a rapidly expanding domestic economy, a rising population, and an advancing scientific technology, is swiftly changing both the environment and function of government as well as the requirements for the effective administration of public affairs. This is especially true at the national level. New international obligations and forces are re-

quiring action in national terms; new kinds of federal laws are regulating our local commerce for national purposes; new conceptions of taxation are supporting immense national civil and military mechanisms; and new interpretations are governing the rights and privileges of all citizens throughout our nation-state. Despite the great diversity and heterogeneity in American society and the increasing division of labor, a growing integration of our regional life into a unified social system has tended to move ultimate authority toward the central government. All this has vastly added to the responsibilities, duties, authority, and power of the men who manage our nation.

This increasingly great impact of government and public affairs upon almost all aspects of American life suggests, in turn, the importance of further attention to the crucial role of all governmental executives, and par-

ticularly those in the federal government. However, this role cannot be fully understood, much less carefully considered in terms of the future, without considerably more knowledge concerning the social origins, education, mobility, attitudes, and personality structure of those who have been occupying positions of great trust and responsibility in the executive branch of the government. It is the fundamental purpose of this study to provide such knowledge.

QUESTIONS AND COMPARISONS

Who are these men and women? What are they like as individuals? Where do they come from? Are they representative of the kinds of citizens ordinarily found in America? Do men from all occupational levels who aspire to climb to the top positions reach them? Or are these positions reserved for the sons of the powerful and well placed few?

Are the men of government or of business more often from a birth elite? Does the competitive, free-enterprise spirit pull more men upward from the lower levels and thereby give more opportunity to those from modest backgrounds? Or does the spirit of equality and democracy, characteristic of citizenship in America, operate in such a way that sons of men modestly placed have more opportunity to reach the top in our government hierarchies than in big business?

Earlier studies of big business leaders demonstrated that higher education played a more and more important role in helping men climb to the top and aiding those born to high position to stay there.¹ Do government men use education as often and in the same

way? Are government men more, or less, highly educated than men in big business? Moreover, do they come from universities and colleges noted as being reserved primarily for sons and daughters of the American elite or are they more likely to be from colleges and universities, run by the states and cities or by private enterprise, whose reputations are based on what, and how well, they teach rather than on the social backgrounds of those who attend?

What are the more general significances to be drawn about higher education from the broad base of knowledge about the education of big business and big government executives?

The studies of big business leaders and federal executives examined the birthplaces of the executives to learn about their nativity, whether they were foreign or native-born, the proportions from each state and region, and the comparative contributions of great cities, towns, and rural areas, to discover whether business or government men are more likely to come from big cities or small towns, from rural or urban regions. Once more broader generalizations are important and can be made.

The present study attempts to answer these and other questions. It reports on the careers of some thirteen thousand (12,929) civilian and military executives. The military men are from top levels of command reaching from admirals and generals down to captains in the Navy and colonels in the Army, Air Force, and Marine Corps: 2,078 officers. The men and women of the career civil service, the foreign service, and those politically

appointed hold positions from Cabinet level to government service grade 14: 7,640 from the career civil service, 1,269 from the foreign service, and 1,865 with political appointments (with 77 unclassifiable). This makes a total of 10,851 civilian employees in the study. The elites of all departments and all agencies, old and new, from State, Treasury, and Defense to Health, Education, and Welfare, from TVA to the Small Business Administration, in and out of Washington, were asked to supply evidence about themselves and their careers. Over 69 percent of those receiving schedules filled them out and returned them.

THE CAREER CIVIL SERVICE

Family Background

Keeping in mind the questions posed in the earlier study regarding origins and career routes of the executives, we asked first about their father's occupations. The fathers of the career civil service executives were well distributed among the several types present in the work force of the country. The highest percentage, almost a fourth, were laborers, most of them skilled workers or mechanics, then business executives and farmers, each with 15 percent. The ratio between these percentages and those of the general population are significant. If sheer chance were operating and each occupation were represented in the executives' background to the same degree as in the general population, the ratio of course would be 100. Several of the nine types of occupation considered are over-represented among the career civil service executives. For instance, business executives are five times what might be expected, profes-

sional men four times, and skilled workers only slightly above. On the other hand, unskilled workers, white-collar workers, farm laborers, and farm tenants and owners are below expected representation.

For these latter occupations, in this and other services, mobility often takes more than one generation. These occupations may have appeared among the grandfathers, while the fathers entered such urban occupations as laborer, small business owner, or white-collar worker.

For all civilian federal executives, the percentage differences between the maternal and paternal grandfathers' occupations are not great, indicating that the two sides of the family come from similar origins. For example, one fifth of the fathers' fathers and the mothers' fathers of career civil service executives were laborers; 46 percent of the first were farmers and 41 percent of the latter were farmers; 9 percent on both sides were professional men.

The executives of this service tend to marry women of their own occupational background; in general the fathers and mothers of both husband and wife tend to come from the same or very similar economic levels.

Geographic Origin

These men were born in all major regions of the country, with the South Central region somewhat lower and the Mountain States and the West North Central somewhat higher than would be expected from the representation of these areas in the general population. They come from big cities in disproportionately high percentages, with a ratio of 182 for every 100

expected by chance; while the ratio for small towns is 64 for every 100.

Less than one out of twenty were foreign-born; about one in five had foreign-born fathers; and, overwhelmingly, they come from native-born stock.

Education and Career

Education was the principal preparation for advancement; nine out of ten had at least some college training, and eight of ten were college graduates. Less than one-half of one percent had less than high school education. Moreover, college education did not terminate with the A. B. degree: one fourth had the master's degree, one out of ten had the Ph.D., and the same number had a degree in law. Areas of specialization covered every field from the Humanities (9 percent) and the Behavioral Sciences (16 percent) to Business Administration (12 percent) and Engineering (33 percent). As they advanced from the A.B. to the Ph.D. the emphasis tended to be towards the behavioral, physical, and biological sciences.

Ten universities granted one fifth of all the bachelor of arts degrees: five were in the Big Ten (Minnesota, Illinois, Michigan, Wisconsin, Ohio State); two were West Coast (California and Washington); the one that led all others is in Washington, D. C. (George Washington University); one in New York City (City College of New York); and one in New England (Harvard). At the doctoral level, many of these colleges and universities dropped out, and Harvard, Chicago, and Wisconsin led.

The typical career civil service executive entered his career when he

was twenty-seven years of age; it took him seventeen years to achieve the position he held when studied.

Federal executives are rarely women—only 145 women appeared among the eleven thousand civilian executives in our sample.

THE POLITICALLY APPOINTED EXECUTIVE

Among all civilian federal executives, there are more similarities than differences. The average age of the politically-appointed executive is forty-nine; he began his career when he was thirty, and it has taken him fifteen years to arrive at his present position.

Family Background

Almost one fourth of the political executives had fathers who were professional men, followed by business owners and executives with over a third, combined, then by laborers and farmers with 15 and 13 percent.

Interpreting these figures as ratios gives somewhat different emphasis: business executives and large business owners ranked first, with 700 for every 100 that might be expected if chance alone were operating, professional men second with 600 for every 100, foremen third with 200, then owners of small business with 186. All other occupations are below the ratio of expectancy: skilled laborers, 87, and unskilled or semi-skilled workers, only 6; farm tenants or owners, 81; white-collar workers, 75; farm laborers, almost zero. Clearly the sons of business and professional men outrank all others in proportions present in today's body of United States government executives.

Because the professions appear so prominently, it is interesting to see which among them represent major proportions. Sons of lawyers have a ratio of 2,044 for every 100 that might be expected; sons of professors, 1,417; sons of doctors, 714; ministers, 690; engineers, 508; teachers, 224. Within this group sons of lawyers and professors obviously outrank all others.

Geographic Origin

In geographic origin, these executives come first from the Middle Atlantic states, with New York leading, then from the East North Central, with Illinois first, followed by the West North Central, the South Atlantic, and the Mountain and Pacific states. In general the proportions of political executives seem to follow those of the general population.

When ratios are considered, the Mountain States, which ranked low percentage-wise, came first, with 167 for every 100 that might be expected. The West North Central and New England states were somewhat above expectancy, while all others were below, the East South Central and West South Central being well below.

Native and foreign-born and those native-born with foreign-born fathers or grandfathers, among this group, closely approximated the pattern for the general population: about 59 percent were native-born with fathers and paternal grandfathers also native-born, and about 16 percent were native-born and with native-born fathers but foreign-born grandfathers. About 17 percent were native-born with foreign-born fathers, and some 5 percent of these executives were of foreign birth. In ratios, the foreign-born executives

were under-represented, in terms of the general population, and the others were slightly over.

Education and Career

All of the federal executives were highly educated, and a very high percentage of each service were graduates of colleges; but among all the services, the politically appointed executive led: 90 percent were college graduates and 7 percent had some college. Comparing the ratios with the general population, there were 606 college men for every 100 expected and only 8 with high school education for every 100. About three fourths of these men had the A. B. degree; a fifth, the Master's; about 13 percent had Ph. D.'s; and 40 percent degrees in law. About 2 percent were doctors of medicine. In advanced degrees these executives far surpassed the general population. About half had gone to private colleges and universities, about 43 percent had attended public colleges and universities, and the rest had gone to technical or foreign institutions.

THE FOREIGN SERVICE EXECUTIVE

The average age of the executive of the foreign service when he was studied was forty-eight. He had taken some eighteen years to reach this position and had started his career at an average age of twenty-eight.

Family Background

Twenty-five percent of their fathers were professional men, leading all others and followed by business executives and owners, with 20 and 19 percent, and laborers, farmers, and white-

collar workers. Only 2 percent had fathers in some kind of federal service.

A different story is told by the ratios of these figures to the general population, for business executives and owners led with 800 for every 100 that might be expected, professional men came next with 625 for every 100, followed by small business with 171 and foremen with 150. All other occupations were below expectancy.

Since professional background appears so important, we will consider each profession: fathers who were professors led all others—2,750 for every 100 that might be expected; then ministers, 1,190; lawyers, 1,000; engineers, 492; and, last, teachers, 190.

Geographic Origin

In regional origins, the Middle Atlantic states came first (New York leading), followed by the East North Central (Illinois first), West North Central (Missouri), and — trailing — the South Atlantic (with Virginia first). The South Central region was in last place, following the Pacific and Mountain states. This pattern of regional backgrounds is rather similar to that of the career civil service and political executives and follows closely the rank-order percentages for all civilian federal executives.

Sixty-three percent of all executives in the foreign service and their fathers and grandfathers were native-born, 15 percent and their fathers were native-born, and slightly more were native-born of foreign-born fathers. Only 5 percent of these executives were foreign-born. The ratios show close correspondence with the general population.

Education

Eighty-eight percent of foreign-service executives had college degrees and another 10 percent had at least some college. Only 2 percent were high school graduates. For every 100 that would be expected from proportions in the general population, 613 of these executives were college graduates. Eighty-one percent had Bachelor's degrees, 33 percent Master's, 13 percent the Ph.D., 8 percent degrees in law, and slightly over 1 percent had degrees in medicine. Over half had attended private colleges and universities; two-fifths, public institutions; and the remainder had gone to technical institutions or one of the academies of the United States government.

THE MILITARY EXECUTIVE

The officers of the Army, Navy, and Air Force who were part of this study were on the average fifty years of age at the time studied; they had been in the service for twenty-five years, and had started their careers at the age of twenty-three.

Family Background

The occupations of the fathers of the military executives were similar to those of the civilian federal executives. Business executives outranked all others with 20 percent but were almost tied by business owners, with 19 percent, and professional men, 18 percent. Laborers were not far behind with 14 percent, followed by white-collar workers, 9 percent. The point of marked difference from other federal executives is that, whereas they did not have fathers in government occupation, 9 percent of the military had fathers

in the uniformed services. The continuity between generations that was lacking in the other federal services is revealed to at least some degree in the military which, indeed, in this respect has established some kind of tradition.

Five general occupations are over-represented in the backgrounds of military executives: business executives and owners of large business, with 700 for every 100 expected; uniformed and other government occupations, 500 for every 100; professional men, 450; foremen and owners of small business, 250 and 186.

Within the important category, the professions, military executives show some variations from the other services: lawyers lead all others with 1,133 for every 100, followed by doctors, with over 900, professors, 750, engineers, 431, and ministers, 405. Sons of professors dropped noticeably for military leaders—for example, in the foreign service 2,750 had fathers who were professors for every 100 that might be expected.

Geographic Origin

There was some but not great variation in the geographical origins of military executives. The Middle Atlantic and East North Central regions tied with 16 percent each, closely followed by East North Central (14 percent), South Atlantic (12 percent), and West South Central (11 percent). Last are the Mountain and Pacific states with 7 and 7 percent.

The ratios for these regions correspond rather closely with the other services. The Mountain, Pacific and New England states are above expectancy with 200, 140, and 114 for every

100 expected. Two regions are only slightly above: the West North Central and the South Atlantic, each with 108. The other regions are below expectancy, but not far below.

The military led all others for having at least three generations of native-born ancestry: over 71 percent were native-born of native-born fathers and paternal grandfathers and less than 2 percent were foreign-born, the lowest for any service. The ratios to the general population are 116 to 100 for native-born with father and father's father native-born and 21 to 100 for foreign-born.

Education

The percentage of college graduates among the military leaders is very high: about nine out of ten had at least an A.B. degree, and only two percent were high school graduates.

Twenty-four percent had Master's degrees, only 1 percent (the lowest of any service) had the Ph.D., 4 percent a degree in law, and 4 percent a doctor of medicine. As to the institutions they attended, 62 percent went to technical institutes or a United States academy, 26 percent a public college or university, and 12 percent private colleges and universities.

MILITARY AND CIVILIAN SERVICES COMPARED

Background

In comparing the military with the civilian federal executive, we find that the occupational backgrounds of the latter tend to be spread more through the general population. The ratios for these two categories of service confirm this. For every 100 sons of business executives or owners of large business that might be expected, there were 570

in the civilian federal executive and 700 in the military; for every 100 sons of professional men, 480 in the civilian executive and 450 in the military; foremen, 250 in the civilian and also 250 in the military; owners of small business, 200 for civilian and 185 for the military. Sons of skilled laborers had a ratio of 113 for the civilian and only 80 for the military; farm tenants or owners, 88 for the civilian and only 56 for the military; white-collar, 75 for the civilian and the same for the military; unskilled and semi-skilled workers, a low ratio of 12 for the civilian executives but an even lower ratio, 6, for the military.

Within the professions as occupational background, there is considerable difference between the civilian and military executives: professors led all others in the civilian group with a ratio of 1,400 for every 100 that might be expected, compared with 750 for the military. On the other hand, lawyers had a much higher proportion among the military—1,100 for every 100—than among the civilian—850 for every 100. The clergy had a higher ratio among the civilians—670 compared with 400; doctors reversed this with 930 among the military and 600 among the civilian executives. Differences between the two services for engineers and for teachers was not very great.

Very broadly speaking, the backgrounds of the military and civilian executives are similar whether we are considering occupation, or region or state of origin. Moreover, the two categories of federal service are similar in the kind of education they have received, with the exception that the

military executives often attended the United States academies established for this purpose.

WOMEN EXECUTIVES

Women executives were conspicuous by the small percentage of their representation in the civilian federal executive. Among the approximately 11,000 civilian federal executives there were only 145 women. (It seems from internal inspection that, if anything, women are slightly over-represented rather than under-represented in our sample.) Among all levels of civilian federal service, there are 400,000 women employees, representing about one third of all civilian federal executives, yet only 145 were at the top levels of executive command.

Over a third of the women executives had fathers who were professional men (34 percent), 18 percent of the fathers were business executives, 14 percent farmers, and 13 percent skilled and unskilled workers.

Expressed in ratios: for every 100 professional men to be expected there are 850 present in the sample, 667 of business executives, 150 foremen, and owners of small businesses, 114. All other general occupational sources were below the expectancy including farmers, farm laborers, skilled laborers, and white-collar and semi-skilled workers.

The Mountain States, proportionately speaking, scored high among women as it did among the men, 167 for every 100 that might be expected, the West North Central was also high with 146, as were the New England states with 143.

Less than 1 percent of these women were foreign-born as compared with

4 percent for the civilian federal executives generally.

Almost all of the female federal executives had some college education, 81 percent being graduates. Proportionately speaking 900 out of every 100 that might be expected were college graduates and only 19 for every 100 were graduates of high schools. The women are not particularly different from male civilian federal executives in the amount of education that they acquired to compete for high positions in the federal government.

THE BUSINESS EXECUTIVE

The American big business executives differ in many respects from the American federal executives but in broad outline they are far more alike than different insofar as their social and economic characteristics are concerned, including their family and occupational origins as well as their educational attainments. We shall give a brief summary of these characteristics of the big business leaders now in order to establish a comparative basis. What is said here is a paraphrase and at times a quotation from a summary in Warner and Abegglen, *Occupational Mobility in American Business and Industry*. (See pages 23 to 36 of that volume.)

Family Background

There are four categories of occupation over-represented in the backgrounds of big business and four under-represented. A simple way to report these results is to say that for every 100 men who might have been expected to be business leaders on the basis of their occupation backgrounds

and the proportion of such men in the general occupational population, there were approximately 800 sons of business leaders, 400 sons of small business men, about 400 sons of professional men, and slightly over 100 sons of foremen. For every 100 that might have been expected from the category clerks and salesmen, there were only 80, for skilled laborers only 60, for farm tenants and owners between 40 and 50. Fewer than 20 out of the expected 100 turn up for the semi-skilled or unskilled and almost none for farm laborers.

Geographic Origin

The several geographical regions of the United States contributed disproportionately to the number of business leaders. The following results are corrected for the size of the population in each of the regions involved. The Middle Atlantic states rank first (a ratio of 147), the New England states second (143), and the Pacific Coast states third (133). The southern states, including the East South Central, West South Central, and South Atlantic regions, produced a disproportionately smaller share. These regional differences seem to be related to differences in standards of living and education. The present distribution of business leaders, compared with their places of birth, shows that a sizeable number left New England and the West North Central states, and that a considerable proportion moved into the Middle Atlantic and Pacific regions. The movement to and from regions is not random but likely to take place in a fairly definite pattern.

The size of a man's birthplace, like the region in which he is born, plays a part in occupational mobility. Most of the men of the business elite were born in the big cities. When the proportions of the business leaders born in the several sizes of community are compared with the proportions for the total population, it is found that relatively few are from small-town or rural backgrounds. When the occupation of father, the region of birth, and the size of birthplace are considered jointly, the very small part played by the small-town and rural South in business leadership is sharply revealed.

Education and Career

Most of the business leaders were college men and well over half college graduates. Seventy-six percent of the men studied had gone to college, 57 percent had graduated, 19 percent had not. However, one-fifth of the whole group had not only graduated but had gone on to advanced graduate study. Comparatively, the American businessman tends to be a highly educated man: whereas 76 out of every 100 of the business elite had gone to college, only 13 of every 100 adult males (30 years and over) in the general population had some college training; 57 of every 100 business leaders had graduated, as compared with 7 out of every 100 in the general population.

More than half of the adult males in the general population had not attended high school, compared with only 4 out of 100 leaders. Nine percent of the leaders had some high school but did not graduate and 11 percent graduated but did not go on to college, compared with 16 percent in each of these groups in the general population.

Over half (52 percent) of the sons of semi-skilled or unskilled laborers had been to college and 36 percent had graduated. Seven out of every 10 sons of fathers of the white-collar level had been to college and 5 out of 10 had graduated. In general, men originating from all levels went to college, but those from higher levels attended and graduated from college in higher proportions. Another moderately accurate measurement of the effect of occupational rank on education is obtained from a comparison of the percentages of men of diverse origins who did not graduate from high school. Whereas only 3 percent of the sons of professional men and 3 percent of the sons of business leaders quit school before graduating from high school, one third of the sons of unskilled and semi-skilled laborers and one fourth of the sons of skilled laborers failed to go on. The other levels fell between the two extremes.

Education is now one of the principal avenues to business leadership. The mobile men in greatly increased numbers use it in their drive to places of leadership and power. Clearly education helps many from all levels to reach the top, yet financial and other restrictions on access to higher education are also important factors in the maintenance of occupational inheritance by the elite.

The average business leader in our study had almost reached his fifty-fourth birthday (53.7 years). He entered business a few months after reaching his majority (21.4 years). It took him almost twenty-four years to reach his present business position. Occupational origin has an effect on the age of entering business: sons of

laborers become self-supporting earlier (before reaching nineteen) than those of any other occupational category. The sons of professional men and businessmen do not enter business until they are nearly twenty-two.

The length of time before reaching a top business position was shortest for the sons of major executives (20.6 years) and longest for the sons of laborers (26 years). The sons of farmers took about a year less than those of laborers (25.1 years). On the whole, territorial mobility, while an integral part of the mobility process, seems to be related to retarding the career, although some men would probably not have advanced so far if they had not been territorially mobile. Men who have moved about a lot tend to achieve business leadership later than those who stay closer to home.

Marriage

Approximately half of the wives of the business leaders studied (51 percent) were the daughters of business or professional men, and about a sixth were from the laboring class. Men born to high station married women from similar backgrounds in greater proportion than did any other class; but in general the men in our study married women from their own occupational level more than any other group of women. The men whose fathers were white-collar workers married out of their occupational origins more than any others; men with laboring, farmer, and big business backgrounds were more likely than others to marry within their occupational origins. In general, both endogamic and exogamic factors seem to be operating in the choice of mates. Flexibility, individual choice,

freedom to go beyond the confines of the occupational level—all are exhibited in the kinds of marriages made by the business leaders.

The question arises, what effect did in- and out-marriage have on the careers of these men? The sons of the elite who married the daughters of laborers took 23 years to achieve their positions at the executive level; those who married at their own level took two years longer (25 years). The laborer who "marries the boss's daughter" takes almost exactly the same amount of time for achievement as the one who marries someone from his own level or origin (25.9 years for the first, 26.1 for the latter). The general effect of marriage on the career is quite similar for all categories; there is only a limited range of difference in time for the careers of men who marry above or below their occupational origins. The status of the wife generally does not have a direct effect on accelerating the career of the business leader.

CONCLUSION

In the broadest sense, the research on business and government executives indicates that at the levels studied American society is not becoming more castelike; the recruitment of business leaders from the bottom is taking place now and seems to be increasing. Mobility to the top is not decreasing; in fact, for the last quarter century it has been slowly increasing. In spite of the pessimistic predictions about an immobilized society, this evidence shows that our society, although much like what it has been in past generations, is more flexible than it was; more men and their families are in social motion; pessimism about de-

creased flexibility and mobility is not warranted.

Despite these facts, the operation of rank and the effects of high birth are strongly evidenced in the selection of the American business and government elite. Men born to the top are more likely to succeed and have more advantages than those born further down. There is not full freedom of competition; the system is still sufficiently status-bound to work to the considerable advantage of men born to higher position. Fathers at the elite

levels still find it possible to endow their sons with greater opportunity. Nevertheless, in business and in all probability in government, they do so now in decreased numbers.² The sons of men from the wrong side of the tracks are finding their way increasingly to the places of power and prestige. The values of competitive and open status are felt more today than yesterday and those of inherited position and fixed position, while still powerful, are less potent now than they were a generation ago.

1. See Warner and Abegglen, *Occupational Mobility in American Business and Industry* (University of Minnesota Press, 1955) and *Big Business Leaders in America* (New York: Harper & Brothers, 1955). The present study was based on this previous study of all varieties of big business leaders in the United States. Exact comparisons can be made be-

tween government and business elites.

2. Earlier study of business executives (1928) allows precise comparison between today and yesterday; precise measurements of federal leaders of previous periods are not available, but incomplete evidence indicates more mobility to higher places today than previously.

A NEW BUREAU PUBLICATION

John L. O'Donnell and David I. Verway

AN ANALYSIS OF FOREIGN TRADE STATISTICS OF THE MICHIGAN
CUSTOMS DISTRICT
(1951 - 53 and 1958 - 59)

Occasional Paper Number 6 80 pages \$1.00

Order from:

Bureau of Business and Economic Research
Graduate School of Business Administration
Michigan State University
East Lansing, Michigan

IRA T. ELLIS

Five Major Economic Problems of the 1960's

*Growth is not automatic: it is the product
of the work, savings, and foresight of us all.*

On the assumption that we shall avoid World War III during the current decade, the following economic problems are among the most important we shall face in the 1960's:

- Stabilization of the purchasing power of the dollar.
- Achievement of balance in our international accounts.
- Stimulation of growth in production of goods and services and in the earning power of individuals.
- Stimulation of savings to finance economic growth.
- Changing composition of our population and labor force.

These problems affect us all, and solutions rest upon activities of a diversity of people and organizations, both public and private. Many of them involve actions by individuals, by business management, and by government officials. Solutions to these

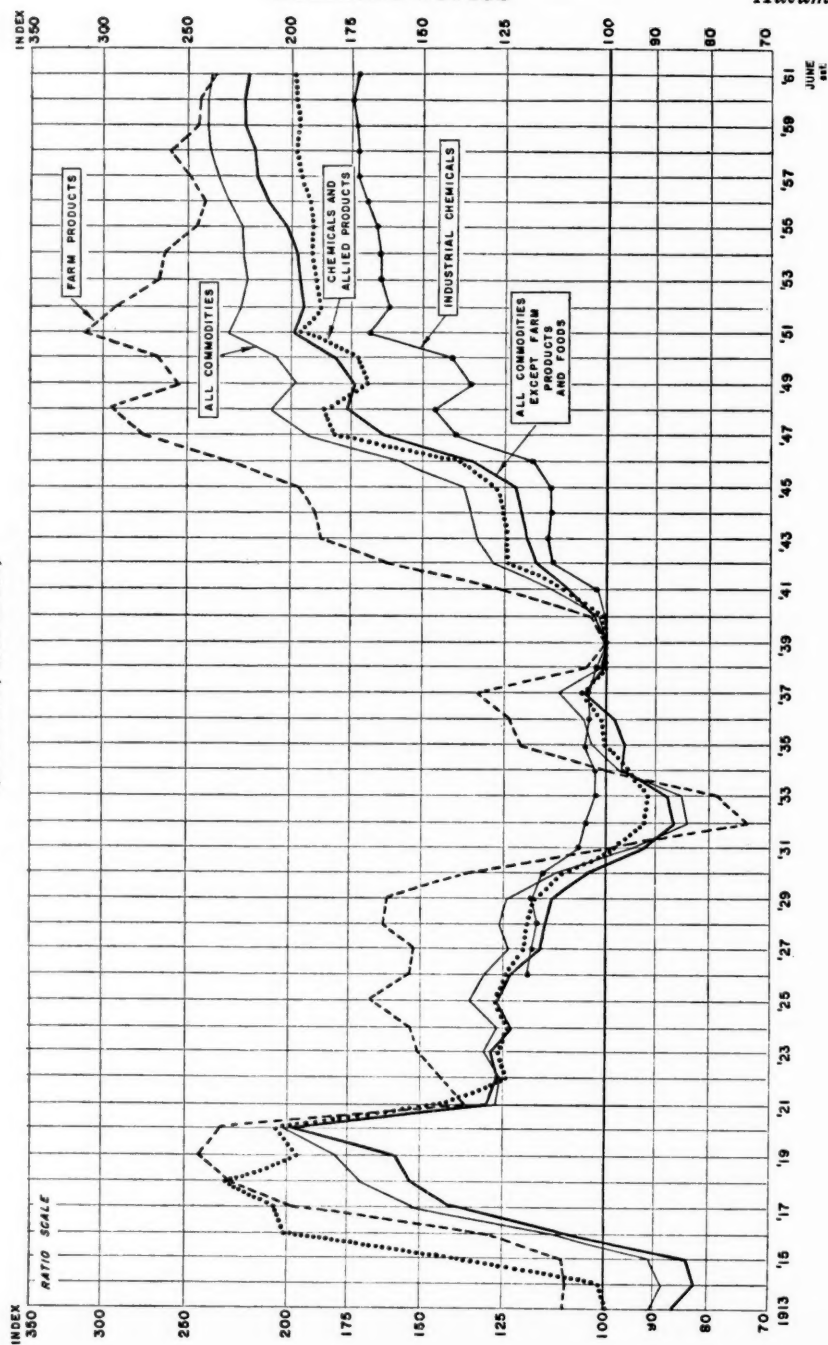
problems must lean heavily on analysis, theory, and skills in many fields.

STABILIZATION OF PRICES

The level of wholesale commodity prices in this country in 1960 was 139 percent above the average in 1939, as may be noted from Chart I. (Incidentally, the current level is almost four times the level at the post-Civil War low in 1896.) The purchasing power of the dollar in wholesale markets in 1960, therefore, had lost 58 percent of its value in 21 years. Chart II shows price changes since 1939 in the principal components of the Consumer Price Index.

Commodity prices rose rapidly during and immediately after World War I. They declined from 1920 to 1932. They have been rising since 1932, stimulated by two of the greatest wars in our history. In contrast to other post-war periods, when deflation usu-

CHART I
INDICES OF WHOLESALE PRICES, 1939 - 1960
(U.S.B.L.S., 1939 = 100)



ally occurred, commodity prices have risen significantly since the end of the Korean War eight years ago.

Some of the price rise of the past two decades has been caused by inflation of the money supply—financing government deficits through the commercial banking system—some has been caused by increased taxes at all government levels, and some has been caused by increasing employment costs at a rate faster than could be offset by increasing output per worker.

Not a Stimulus

Rising prices do not provide permanent stimulation to economic growth. Instead, they distort business activity and business decisions, they reduce the value of savings in the form of life insurance, bank deposits, bonds, preferred stock, mortgages receivable, and other fixed-income securities, and they are a very real form of tax on those whose incomes do not rise with prices. Rising prices of new homes have stimulated the lengthening of mortgage terms and the reduction in the relative size of down-payments, with a consequent demand for government insurance of low-equity, long-term residential mortgages. Rising prices have been an important factor in the lengthening of credit terms for automobile purchases and have stimulated enormously the demand for credit in financing automobile sales.

We must stop the rise in prices by stopping the rise in costs. We must balance our governmental budgets, and restrict the rise in employment costs to a rate we can offset with rising productivity of labor and capital. Improvement in productivity should result in price decreases in some areas.

BALANCE OF INTERNATIONAL ACCOUNTS

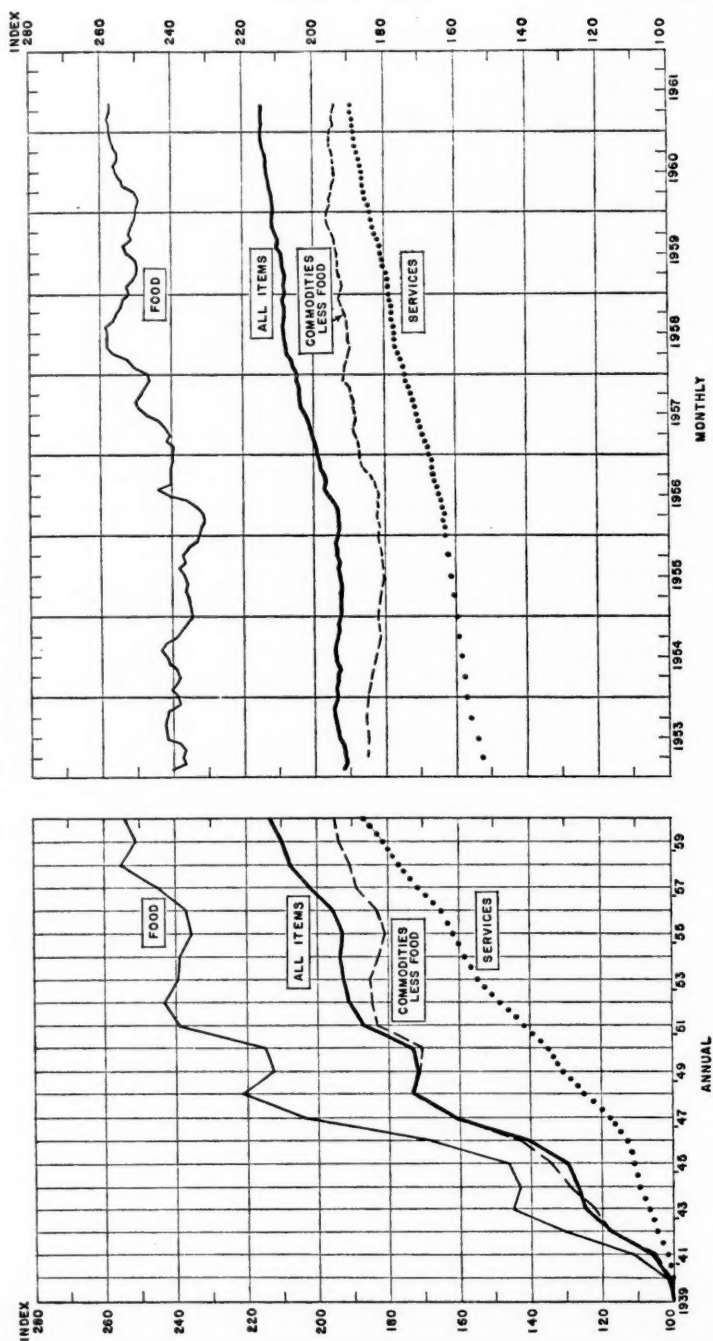
The second problem is the recently-developed one of lack of balance in our international payments. This problem has become *serious* only in the past three years, as may be noted from Table 1, although it has been developing since 1949. The difficulty in our international balance of payments before 1958 was usually in the opposite direction—a dollar shortage—a lack of dollars available to the rest of the world to pay for their desired purchases from the United States. Foreign countries today, however, are increasing their reserves of gold and dollar balances because they do not desire to purchase from this country goods and services equal to the total value of the dollars they have available.

The more dramatic segment of the problem is shown by the decline in our monetary gold stock. The United States had a small increase in gold holdings in 1956 and 1957, but we sold gold valued at \$2.3 billion in 1958, \$0.7 billion in 1959, and about \$1.7 billion in 1960. The value of our monetary gold stock is now \$17.4 billion, of which about \$12 billion is restricted by law as a 25 percent reserve against outstanding paper currency of the Federal Reserve System and deposits in Federal Reserve Banks.

Why We Sell Our Gold

We are selling gold and foreign countries are also increasing their holdings of dollars because the surplus of our exports of goods and services over corresponding imports is not sufficient to finance our military spending abroad and our foreign aid given in

CHART II
CHANGES IN PRICES OF COMMODITIES AND SERVICES IN THE
CONSUMER PRICE INDEX, 1939-1961
(U.S.B.L.S., 1939 = 100)



dollars, together with our new foreign investment in forms other than merchandise or service exports from this country.

We must correct the adverse condition in our international balance of payments because we have a limited supply of gold to balance our accounts and because foreign nations cannot be expected to continue indefinitely to increase their holdings of dollars. The solution to this problem may take several forms. We can increase exports, transfer some military spending or foreign aid spending for foreign purchases to other industrial nations, reduce our rate of foreign investment, or reduce imports—or, of course, combine all four solutions. Of one thing we are certain, we must continue to pay our bills abroad. It is no longer a problem we can complacently ignore.

Competition and Banking Practice

One extremely important factor in increasing exports is to assure the world that prices of our export commodities will be competitive. With the rebuilding of the industrial economies of the United Kingdom, Western Europe, and Japan, we are no longer the only source of supply of industrial commodities. And for many important products our prices are not sufficiently competitive—for example, cotton at the domestic price, cotton or woolen manufactures, steel, machinery, and automobiles. Not only are we having difficulty in competing in export markets, but also our imports—especially of manufactured products—are rising faster than our exports—importantly for price considerations.

The world is also watching the handling of our federal finances. Fi-

nancing a large federal deficit through the banking system—as we did in 1954 and 1958 and as we are starting to do again in 1961—raises doubts abroad about the soundness of our currency and the purchasing power of the dollar. We must balance our federal budget at least over the business cycle to avoid inflation of the money supply and the inevitable price increases. Note that the federal debt rose \$15.2 billion between June, 1954, and June, 1960, a period of rising production, employment, personal income, and Government income. (Debts of state and local governments are also rising, but this increase reflects largely the construction of roads, schools, water and sewer systems, etc., rather than the financing of deficits in current spending.)

Stimulation of Growth

The third problem on our list is the stimulation of growth in production of goods and services and in the earning power of individuals. The economic growth that is so much in the news today should be defined principally as growth in the level of living of our people, i.e., in their command over goods and services. Since the American people can consume only what they produce, ignoring the small net effect of imports and exports, to have more we must produce more.

Data on Chart III show the close correlation that exists between changes in the "real" volume of goods and services produced in the country and the corresponding changes in the generation of "real" personal income after taxes—with both on a per capita basis. Changes in the volume of industrial production per capita are also shown on this chart.

TABLE 1
UNITED STATES BALANCE OF PAYMENTS, 1950-1960
(\$1,000,000,000)

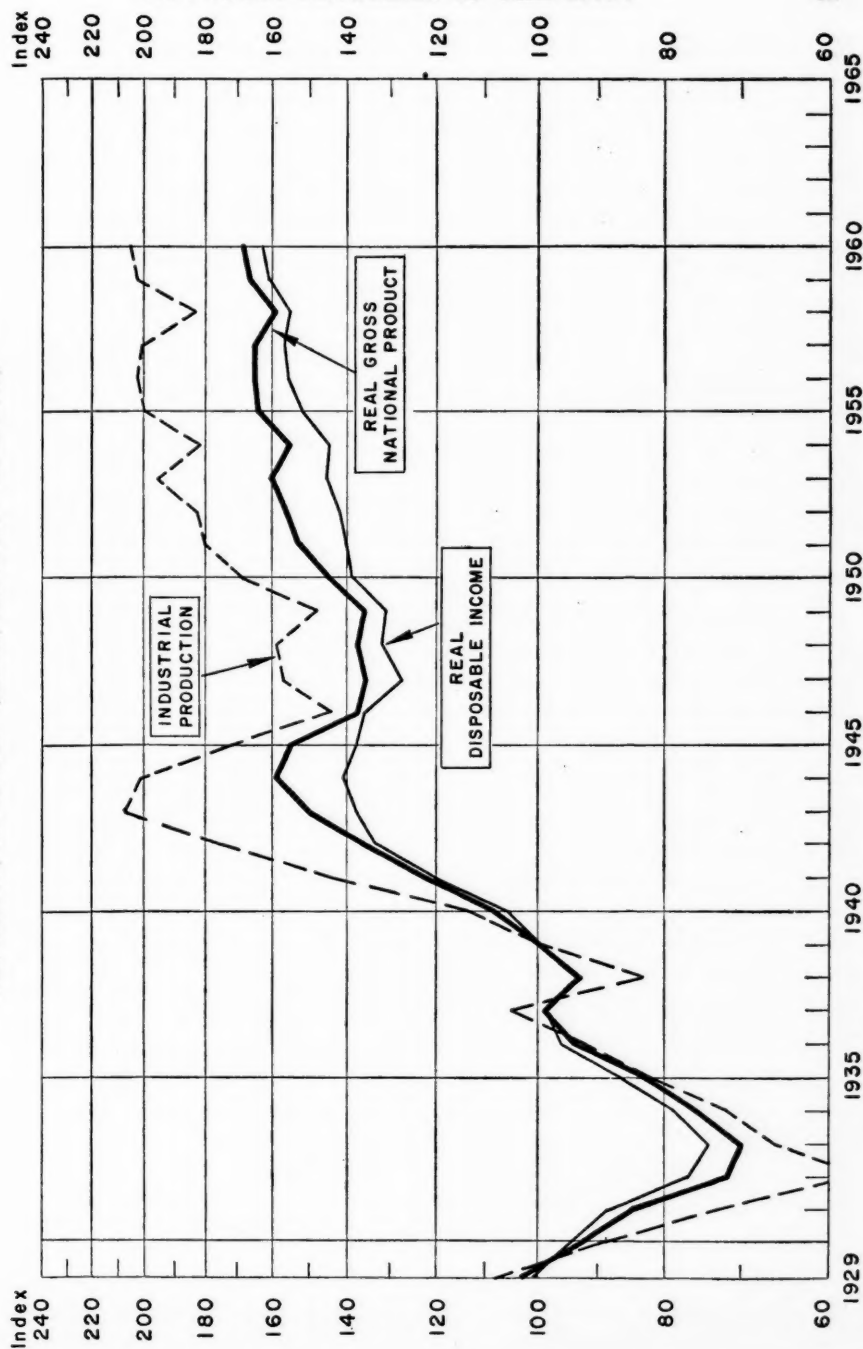
	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959(1)	1960
1. Exports	\$13.9	\$18.9	\$18.1	\$17.1	\$18.0	\$20.0	\$23.7	\$26.7	\$23.3	\$23.5	\$27.1
2. Merchandise	10.1	14.1	13.3	12.3	12.8	14.3	17.4	19.4	16.3	16.2	19.4
3. Services	3.8	4.7	4.8	4.8	5.2	5.7	6.3	7.3	7.1	7.2	7.7
4. Imports	-\$12.0	-\$14.3	-\$14.3	-\$14.7	-\$14.1	-\$15.7	-\$17.5	-\$18.5	-\$18.4	-\$21.2	-\$21.1
5. Merchandise	-9.1	-11.2	-10.8	-11.0	-10.4	-11.5	-12.8	-13.3	-13.0	-15.3	-14.7
6. Services, excluding military	-2.4	-2.7	-3.0	3.1	-3.1	-3.6	-4.1	-4.5	-4.7	-5.2	-5.6
7. Remittances and pensions	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8
8. Balance Above	\$1.9	\$4.6	\$3.8	\$2.4	\$3.9	\$4.3	\$6.2	\$8.2	\$4.9	\$2.3	\$6.0
9. Military expenditures	-0.6	-1.3	-2.0	-2.5	-2.6	-2.8	-3.0	-3.2	-3.4	-3.1	-3.0
10. Government loans—net	-0.2	-0.2	-0.4	-0.2	0.1	-0.3	-0.6	-1.0	-1.0	-0.4	-1.1
11. Government foreign aid grants	-3.5	-3.0	-2.0	-1.8	-1.6	-1.9	-1.7	-1.6	-1.6	-1.6	-1.7
12. Private long-term capital—net	-1.1	-0.8	-0.9	-0.5	-0.9	-0.6	-2.0	-2.3	-2.5	-1.7	-1.7
13. Private short-term capital—net	-0.1	-0.1	-0.1	0.2	-0.6	-0.2	-0.5	-0.3	-0.3	-0.1	-1.4
14. Unidentified transactions	0	0.5	0.5	0.3	0.2	-0.4	0.6	0.7	0.4	0.8	-0.9
15. Balance on transactions other than merchandise and services (sum of lines 9 to 14)	-\$5.5	-\$4.9	-\$4.9	-\$4.5	-\$5.4	-\$5.4	-\$7.2	-\$7.7	-\$8.4	-\$6.1	-\$9.8
16. Balance Above	-3.6	-0.3	-1.1	-2.1	-1.5	-1.1	-1.0	0.5	-3.5	-3.8	-3.8
17. Gold sales	-1.7	0.1	0.4	-1.2	-0.3	0	0.3	0.8	-2.3	-0.7	-1.7
18. Increase in dollar liabilities	-1.9	-0.4	-1.5	-0.9	-1.2	-1.1	-1.3	-0.3	-1.2	-3.1	-2.1

NOTES: Detail may not add to total because of rounding.

Payments deficits, increases in liabilities to foreigners, and gold sales are shown by (-).
Figures with no sign indicate receipts.

(1) Excludes subscription of \$1,375 million to the International Monetary Fund.

CHART III
GROWTH IN PRODUCTION AND IN INCOME IN THE UNITED STATES—
PER CAPITA, SINCE 1929 (Indices, 1939 = 100 — Ratio Scale)



There has been a significant rise in this country since 1949 in production per person in the population, whether we measure production as the output of our factories, mines, and utilities (Industrial Production), or the production of all goods and services (the Gross National Product). This rise in production has been accompanied by a rise in "real" personal income after taxes (disposable income).

Spending and Investment

Spending for personal consumption accounts for about two-thirds of the goods and services produced in the country, and private investment accounts for about one-seventh. Government purchases account for about one-sixth. The principal area of stimulation of production, therefore, would seem to be personal consumption and private investment, if we are to affect importantly the growth rate of total production in the country. Higher consumer spending would mean more spending for automobiles, furniture, household equipment, etc., more spending for food and other nondurable goods, and more spending for household operation, transportation, and other services. It would also mean more private investment in residential construction, in business plant and equipment, and in other nonresidential construction.

Of course, some of our increase in production must take the form of goods and services purchased by or provided by the public sector of the economy, i.e., national defense, schools, roads, public welfare, etc. These goods and services are part of our standard of living just as much as are homes, household appliances, automobiles, va-

cations, or the expenses of our children in college. There may be, of course, questions about the desirability of some forms of government spending, e.g., the price support program for agricultural products, just as there may be about some forms of private spending.

We have been making progress in the public sector as well as in the private sector of the economy. Personal consumption expenditures in this country rose from \$72 billion in 1940 to \$328 billion last year, an increase of 356 percent. Expenditures by all levels of government in 1940 were \$23 billion; they were about \$155 billion last year, a rise of 574 percent. Expenditures by the federal government for defense were \$2.2 billion in 1940; they were about \$45 billion last year. Expenditures for public elementary and secondary education were \$2.8 billion in 1940, and \$18 billion in 1960.

To increase the production of desirable goods and services in the country at a rate faster than the rise in population, and therefore to increase the level of "real" disposable income *per capita*, we must use a higher proportion of the available labor force and we must increase the productivity per worker—by better management, better training of workers, and more investment in tools and facilities.

Stimulation of Savings

Another major problem in the United States and in most other countries of the world is the relative shortage of savings to finance desired economic expansion. One evidence of this shortage is the current relatively high level of interest rates. They have fallen over the past year, but a year

TABLE 2
ANNUAL RATE OF PERSONAL AND CORPORATE SAVINGS
IN THE UNITED STATES, 1929 - 1960
(\$1,000,000,000)

Personal Savings								
Year	Currency & Demand Deposits	Savings Accounts, including Savings & Loan Assns.	Debt Securities	Stocks (1)	Other (2)	Total	Corporate Savings	Total Savings
1929	\$0.0	\$0.4	\$0.7	\$4.8	\$1.9	\$7.8	\$2.4	\$10.2
1930	-0.9	0.1	1.1	1.3	2.3	3.9	-3.0	0.9
1931	-0.1	-2.1	3.0	0.6	0.9	2.3	-5.4	-3.1
1932	-0.2	-4.2	0.4	0.2	0.0	-3.8	-6.0	-9.8
1933	0.1	-1.7	-0.2	0.4	-2.5	-3.9	-2.4	-6.3
1934	0.9	0.9	0.3	0.4	-0.6	1.9	-1.6	0.3
1935	1.8	0.8	-1.3	-0.1	1.1	2.3	-0.7	1.6
1936	2.4	1.1	-0.5	0.2	1.4	4.6	-0.2	4.4
1937	0.1	0.7	0.1	0.8	1.4	3.1	0.0	3.1
1938	0.5	0.1	-0.5	0.2	1.2	1.5	-0.9	0.6
1939	2.5	0.9	-1.0	0.6	1.1	4.1	1.2	5.3
1940	2.4	0.8	-0.4	0.5	1.2	4.5	2.4	6.9
1941	4.4	0.6	1.7	0.6	2.0	9.3	4.9	14.2
1942	9.6	1.0	9.9	0.2	1.7	22.4	5.2	27.6
1943	11.3	4.9	13.1	0.5	2.1	31.9	6.0	37.9
1944	10.1	8.0	14.6	0.5	3.2	36.4	5.7	42.1
1945	10.0	9.6	7.8	1.2	4.7	33.3	3.6	36.9
1946	4.9	6.6	-0.3	1.8	5.4	18.4	7.7	26.1
1947	-0.3	3.6	1.5	2.1	5.5	12.4	11.7	24.1
1948	-2.1	2.1	0.6	1.4	5.7	7.7	13.3	21.0
1949	-2.4	2.3	1.1	1.6	5.2	7.8	8.5	16.3
1950	1.9	2.3	0.1	1.2	5.8	11.3	13.6	24.9
1951	3.0	4.5	-1.2	1.6	6.8	14.7	10.7	25.4
1952	2.0	7.5	0.9	1.4	7.5	19.3	8.3	27.6
1953	0.7	8.3	2.3	0.7	7.8	19.8	8.9	28.7
1954	2.4	9.1	-1.2	0.0	8.7	19.0	7.0	26.0
1955	-0.8	8.3	5.7	1.2	9.2	23.6	11.8	35.4
1956	0.9	9.1	4.0	1.4	9.2	24.6	11.3	35.9
1957	-0.8	11.8	3.9	1.4	10.6	26.9	9.7	36.6
1958	2.6	15.6	-1.4	1.4	10.6	28.8	6.7	35.5
1959	1.3	10.8	4.7	0.9	10.7	28.4	10.5	38.9
1960	1.1*	13.3	1.8	-0.2	14.0	30.0*	8.7	38.7*

* Preliminary or estimated.

Source: Federal Reserve Board, U. S. Department of Commerce, and Securities and Exchange Commission, except some items prior to 1950 from Goldsmith's "A Study of Saving in the United States."

(1) Includes net new money put into common and preferred stocks and investment company shares.

(2) Mortgages and savings in private life insurance and pension funds.

ago they were at a peak level since 1933.

Interest rates are high basically because the American people are trying to borrow more than they are willing to save. Net savings of individuals in savings accounts, debt securities and real estate loans, life insurance and

pension reserves, etc., totaled about \$30 billion last year, a new record high level since 1945, as may be noted from the tabulation in Table 2. Retained earnings of corporations, which fluctuate more widely than personal savings, totaled almost \$9 billion last year. Apparently these savings were not

sufficient to cover the potential demand from corporations, residential mortgages, consumer credit, and government, since interest rates were relatively high during the year.

Meeting the Demand

In any period of high demand for savings, accompanied by high or rising interest rates, there is usually a demand for substantial expansion of credit by commercial banks, i.e., inflation of the money supply. This demand appears most frequently in government financing, where it takes the form of financing deficit spending by selling securities to commercial banks. I stress the use of *commercial bank credit*, since this is the credit which creates demand deposits and therefore expands our money supply—for both public and private spending.

But economic growth must be financed from *savings*, not from creating money for public or private spending. To increase the standard of living of the American people, i.e., to enable them to consume more goods and services, we must save and invest more. In view of the expected substantial growth in our population during the 1960's, we shall have enormous demands for mortgage money, consumer credit, borrowed funds to build roads and schools, and for equity funds for the replacement and expansion of our industrial and commercial plant. We must stimulate personal and corporate savings in this country during the 1960's with attractive interest rates and corporate profits and with stable commodity prices to provide the necessary loan and equity funds to meet these demands.

Changes in Population Composition

The final problem for our consideration is the changes which will occur in the composition of the population, and therefore in the labor force, of this country over the decade ahead, as may be noted from the data in Table 3. The United States population rose 18.6 percent from 1950 to 1960. It will rise about 17 percent from 1960 to 1970. The rate of growth in total population, therefore, is showing little change but there will be wide differences in rates of growth by age group in the decade ahead as there were in the decade of the 1950's.

Population 18-24 years of age—the age when many men and women join the labor force, form families, or attend college—increased 0.5 percent from 1950 to 1960. It will rise about 55 percent in the next 10 years, reflecting the rapid rise in the birth rate from 1946 through 1952. On the other hand, the population from 25 to 44 years of age will rise only 3 percent in the next 10 years, the same rate of rise we experienced over the past 10 years. We shall see a shift in the composition of our labor force in the decade ahead toward the younger end of the scale. In fact, we must adjust to a reduction in the average age of our working force for the next 30 years—a legacy of the low birth rate during the years 1928 through 1941.

The last five years of the decade will see average high school graduating classes almost half again as large as in the five years ending with 1960. Many of these graduates will want to enter college, but many of them will seek employment and plan to be married. Much of the optimism about the current decade is based on this expected

TABLE 3

AGE DISTRIBUTION OF THE POPULATION OF THE U. S., INCLUDING ARMED FORCES OVERSEAS, BUT EXCLUDING ALASKA AND HAWAII;
ACTUAL 1940, 1950, AND 1960: PROJECTED 1970

(In thousands, as of July each year)

	1940	1950	% change 1940-1950	1960	% change 1950-1960	1970 est.	% change 1960-1970
Total	132,122	151,683	+14.8%	179,900	+18.6%	210,000	+16.7%
Under 5 years	10,579	16,320	+54.3	20,400	+25.0	21,500	+5.4
5 - 17	29,789	30,730	+3.2	43,900	+42.9	52,700	+20.0
18 - 24	16,608	16,014	-3.6	16,100	+0.5	24,800	+54.0
25 - 34	21,446	23,926	+11.6	22,900	-4.3	25,200	+10.0
35 - 44	18,422	21,569	+17.1	24,100	+11.7	23,000	-4.6
45 - 64	26,249	30,837	+17.5	36,000	+16.7	42,300	+14.6
65 and over	9,031	12,287	+36.1	16,500	+34.3	20,500	+24.2

rise in family formation. We must organize our economic affairs to provide employment for the rising tide of high school graduates late in the 1960's if we are to enjoy the expected benefits of a rising rate of family formation.

Framework of Economic Growth

In conclusion, we enjoyed a decade of growth during the 1950's. It was marred by a serious war, by a significant rise in commodity prices, and by deterioration in the balance of our international payments. The decade of the 1960's can also be a period of sub-

stantial growth in savings and investment, in production, and in the earning power and the level of living of the American people, particularly if there is no serious increase in international tension. But economic growth is not easy or automatic, and it is not provided by government, nor can it be financed by excessive expansion of the money supply. It must be financed by the saving and produced by the hard work of all of us. It must be done in a framework of stable prices, with balance in our international accounts, and by employment of the available labor force.

The Clouded Crystal Ball: 1861

The address of President Lincoln upon his taking the oath of office, augurs ill for the maintenance of the Union. The policy which it announces is neither that of conciliation nor that of defiance. The best defense which can be made of the inaugural address is, that it does not mean what it says; that its object is to gain time, and that the Federal Executive intends to adopt no decisive step, until the intentions of the Border States are declared.

It would, in our opinion, be premature to speculate upon the probable effects of the movement now in progress. We will only express our opinion that the maintenance of the Union, in perpetuity, is impossible; and that the entire region from Niagara to Mexico, and from New York to California, cannot continue for many years to be governed by a single Federal Government. Dissolution, to some extent, and at no distant period, is, we believe, the "manifest destiny" of the United States.

We cannot concur in the opinion of those who have expressed unmingled regret at the apparent dissolution of the Union. No doubt the comparative failure of so great an experiment in the progress of mankind is to be deplored; but we are by no means convinced that the progress of mankind and of rational liberty will not be advanced by that separation. Nothing could be more deplorable than a sanguinary contest between the two great sections of the American people; but we are convinced, for numerous reasons, that such a contest, if it takes place at all, will be of a very short duration.

The severance of the Union into two parts will beget in both of them a stronger sense of the obligations of international law, and a greater respect for their neighbors. To each division of the Union a vast career of power, prosperity, and usefulness remains open; and if they have the good sense to abstain from mutual aggression, each of these two great countries may continue to play as important a part in the affairs of the world as when they were united by the slender tie of a Federal Compact.

Edinburgh Review, CXIII, 230 (April 1861),
555-87, Article X, "Election of President
Lincoln." Abridged.

RICHARD F. GONZALEZ

The Brazilian National Automotive Industry

*A developing nation charts a middle course
between reliance on direct foreign investment
and encouragement of domestic enterprise.*

A press release dated May 24, 1961, issued by the Brazilian embassy in Washington, pointed proudly to the fact that in only four years "Brazil affected the renewal of her fleet of vehicles spending just one-fourth of what would be necessary to import the 300 thousands units which had been produced in that country. . . ." It noted that the country's industrial resources had been augmented by machinery and equipment valued at more than \$300 million during the period 1957 through 1960, and that invaluable technical knowledge had been acquired in the process. With production slightly less than 120 thousand vehicles in 1960, the Brazilian auto industry now ranks as the world's seventh largest. The Brazilian government estimates that after 1961 production will reach \$550 million per year and foreign exchange diverted from automotive equipment expenditures will total \$300 million

annually. They also look forward to a market expansion to include neighboring Latin American republics. After 1961 the industry is expected to export 60,000 vehicles a year.

It is difficult to measure investment in the industry, to reconcile conflicting reports of growth, and to evaluate the success of governmental inducements. Yet it is evident that in a little more than four years the Brazilian government, prompted by the necessity of easing its dollar shortage while developing an industrial sector defined to be essential for economic development, has been eminently successful in achieving its initial goals of creating a domestic industry while pursuing a course of action requiring unusual cooperation between government and private enterprise. The Brazilian experience in the auto industry was not an example of state enterprise, nor were private manufacturers given a free

hand. The national plan for the automotive industry announced in 1956 served as criticism of the progress achieved in the industry prior to that time and indicated dissatisfaction with governmental experience in the operation of F.N.M. (Fábrica Nacional de Motores), a state enterprise organized to manufacture a heavy-duty truck of Alfa Romeo design. F.N.M. failed to attain desired production goals as well as the objective of manufacturing a vehicle using parts and components domestically produced. The latter goal specified that nationally manufactured parts should constitute 65 percent by value of the final product.

THE NATIONAL PLAN

From 1945 to 1952 the average annual cost for the importation of automotive vehicles and parts was approximately \$142 million, which incidentally exceeded the import cost of such items as wheat and petroleum. During this period Brazil was the world's leading importer of Cadillacs and was known as the "Country of Cadillacs." However, except for a brief period following World War II, Brazil has not had the means of payment necessary for the importation of automotive vehicles on a scale adequate to keep pace with the development needs of the country. Increasing difficulties with the balance of payments schedule as well as deteriorating terms of trade forced the Brazilian authorities in 1952 to undertake measures to restrict the importation of vehicles with a view to easing the demand for foreign exchange.

Import Restrictions

In August 1952 the government

placed restrictions on the importation of spare parts if comparable items were being manufactured in the country. This order eventually prohibited importation of 104 items. This was the first official step taken to encourage the development of the Brazilian automotive parts industry. After July 1953 requests for licenses to import assembled vehicles were denied. By June 1954 the Committee for Industrial Development had created an executive group for the automotive material industry. The function of the group was to devise measures which could be taken to encourage further development of the parts industry. On March 8, 1956, the Superintendency of Currency and Credit published Instructions 127 and 128, designed to further control the importation of disassembled vehicles and accessories and set up a program for manufacturers in which an increasingly "nationalized" product would be produced. These measures were ineffective, since the instructions were considered difficult to interpret.

Decree No. 39.412

In April 1956, under the direction of the Minister of Transportation, a working group was formed to study the establishment of a Brazilian automotive industry and to suggest means for its achievement. This group, operating within a thirty-day time limit, drew up a program which was incorporated into Decree No. 39.412 issued under executive order on June 16, 1956. The essential provisions of this decree are as follows:

Equipment for use in the automotive industry was defined as being of the highest essentiality for the development of the country, and could be imported without exchange cover as

foreign capital investment subject to Instruction 113, a 1955 regulation of the Superintendency of Currency and Credit specifically dealing with direct foreign investments.

Any manufacturer desiring to take advantage of the various inducements offered by the Brazilian government was required to have his proposal for manufacturing approved by the Executive Group of the Automotive Industry (GEIA). Furthermore, the manufacturer was required to submit proposals which included the production of automotive engines in its own facilities or those of subcontractors under the manufacturer's responsibility. In addition, proposals had to conform to standards of increasing non-reliance on imported parts and components in accordance with a rigid schedule set up by GEIA. (See Table I for the rates of nationalization contained in the program.)

Nationalization is here defined as the utilization of domestically produced parts and components to a specified degree as measured by percentage of the weight of the finished vehicle. The various sub-plans called for a successively greater use of domestically produced parts, such that by the last half of 1960 there would be attained a level of nationalization of between 90 and 95 percent for all types of vehicles. Admittedly, the specification by weight was not completely satisfactory but it did have the advantage of ease of calculation. In some instances a major component did not have to meet the 90-95 percent figure in order to be counted as national production. For example, in most of the plans if an engine contained 60 percent by weight of components of national manufacture

the entire engine was declared a national product.

An additional benefit to the manufacturers was contained in Decree No. 39.412 relative to the provision for reserves of exchange quotas in favor of each manufacturer to facilitate importation of parts and components not yet being produced in Brazil. The decree also stated a preference for the manufacture of vehicles and parts of foreign design already proved by use, and encouraged the intensive use of sub-contractors although admitting the acceptability of vertically-integrated manufacturing organizations.

Automotive Industry Executive Group

Most importantly, the decree provided for the founding of GEIA, the Executive Group of the Automotive Industry, subordinate to the Development Council and composed of the following members: the Minister of Transportation, the Executive Director of the Superintendency of Currency and Credit, the Director-Superintendent of the National Bank for Economic Development, the Director of the Foreign Trade Department of the Ministry of Finance, and the Director of the Exchange Department. GEIA was given the task of drawing up sub-plans for the domestic production of trucks, jeeps, light trucks and utility vehicles, and passenger vehicles. The group had sole responsibility for examining and approving all manufacturing proposals submitted to it and cooperated with other government agencies on subjects affecting the automotive industry. Finally, GEIA was designed to coordinate studies on terminology, revision of import duty rates, classification of merchandise by import cate-

gories, standardization of materials, selection of vehicle types, training of specialized labor and technicians, supply of raw materials and production goods, industry statistics, taxation and legislation measures, market studies, and production cost analysis.

Additional Measures

The basic decree of June 16, 1956 established the framework for the national industry and was supplemented by four additional decrees each spelling out the specific plan for the principle types of vehicle production. These decrees were issued between July 12, 1956 and February 26, 1957. While Decree No. 39,412 extended the benefits of Instruction 113 to the importers of capital equipment, an additional law, No. 2,993 of December 6, 1956, granted exemptions from duties, additional taxes, consumption tax and customs duties on the imports of automotive material for a thirty-month period subject to the approval of GEIA.

Although a series of lesser decrees, advisements, and actions by governmental agencies have affected the industry, the five executive decrees and Law No. 2,993 constitute the basis of governmental actions, inducements and constraints under which foreign manufacturers operated to establish the Brazilian national automotive industry. The tariff law of 1957, which followed the national plan, maintained the status quo on imports of equipment and materials for the industry. The thirty-month exemption from import duties and taxes was extended to include the period from 1957 to 1960.

INSTRUCTION 113

The provisions of Instruction 113 constitute one of the principal induce-

ments offered by the Brazilian government to foreign manufacturers. The instruction was issued January 18, 1955 by the Superintendency of Currency and Credit to simplify regulations governing the licensing of imports not requiring exchange cover and to establish a climate favorable to the investment of foreign capital in Brazil. Instruction 113 provided that the Office of Foreign Commerce could issue licenses for imports without exchange cover to foreign investments in Brazil for new equipment, or in exceptional cases for equipment to supplement existing setups when the director of the Office of Foreign Commerce was satisfied that no payment would be made from exchange earnings to cover such imports. The investor declared that the equipment so licensed would be incorporated into the assets of the national concern in the case of a joint venture, or of the Brazilian branch or subsidiary of the investor without a corresponding entry as a demand liability. The firm invested in could not make payment abroad corresponding to the value of the equipment imported. Finally, the equipment had to remain in the assets of the firm or branch for a period corresponding to normal use.

At the time of issue, Instruction 113 established provision for the importation of equipment in the name of Brazilian firms which would be financed from abroad. It was required that such equipment would be for the production of goods considered essential to the Brazilian economic development and not currently being produced in the country. Annual repayment of such investment could not exceed 20 percent of the value of the loan in any

single year and repayment could be made at the official rate of 18.76 cruzeiros per dollar plus the pre-payment of a surcharge originally fixed at 40 cruzeiros per U. S. dollar.

Advantages and Alternatives

Instruction 113 also enabled the foreign investor to remit a higher rate of profit at the official rate of exchange than was formerly possible without at the same time foregoing the opportunity of remitting additional profits through the free exchange market.

Although Instruction 113 was not favorably received by Brazilian businessmen operating without the benefit of a foreign partner or investor, the concessions were maintained by the Brazilian government. It has been estimated that in the three-year period following the issuance of the instruction, direct private foreign investment increased tenfold. To fully appreciate the significance of the provisions incorporated in Instruction 113 it is necessary to review briefly the alternative which would have been faced by equipment importers in the absence of these concessions. During most of the period between 1957 and 1960, when the bulk of the auto industry equipment investment entered the country, Brazil operated under a two-category exchange rate system. The general category covered importation of items which could not be produced adequately in the country. The second or special category included all items of a somewhat less essential nature or for which comparable substitutes could be obtained through local manufacturing. Imports of equipment for the automotive industry would then have been classified under the general category

and an importer would have been required to obtain an exchange certificate through public auction. Import licenses were then issued to those holding exchange certificates. The cost of obtaining the certificate or exchange commitment was in effect a premium to which was added the official rate of exchange. In general, during the period under consideration the cost of obtaining dollars in the general category varied from 50 to 75 percent above the cost of dollars in the free market. The free market rate in turn ranged from three to ten times the official rate. During the first year of operation under Instruction 113, it was estimated that the cost of machinery imported without concessions ultimately cost two or three times more than machinery imported under provisions of Instruction 113.

THE PARTICIPATING FIRMS

To speak of a Brazilian national automotive industry is slightly misleading; of the twelve firms now engaged in the manufacture of vehicles, four are subsidiaries of U. S. manufacturers: Willys, Ford, General Motors, and International Harvester. Six of the remaining are subsidiaries of European or Japanese firms, while Brazilian interests are represented by only two firms, Vemag and F.N.M., the latter of which was cited earlier as a government corporation.

United States Companies.

Ford. Of the U. S. firms, the Ford Motor Company subsidiary has a record of assembly operations beginning in 1919 with a small plant in Sao Paulo. Ford expanded facilities for the as-

sembly of trucks and passenger vehicles until 1953, when an acute shortage of foreign exchange brought its program to a virtual standstill. The company had investments of \$14 million when the national plan was announced and since 1956 has increased investments to over \$24 million, including a \$4 million engine plant completed in November 1958. It is estimated that since Ford had a substantial investment prior to the announcement of the national plan, less than 50 percent of its investment entered without exchange cover, that is, under the preferred treatment accorded investments for the industry. Ten years after its initial Brazilian activity Ford had expanded its assembly capacity to 20,000 vehicles per year although sales in 1929 were slightly less than one-third of that amount. By 1953 the company employed approximately 2,500 workers and increased capacity to include assembly of passenger cars. The recently constructed engine plant has a rated capacity of 30,000 engines per year. Under the initial phase of the nationalization program Ford has approved plans for the manufacture of the F600 and F350 trucks and the F100 utility vehicle.

Willys Overland. The record of Willys Overland of Brazil, a subsidiary of Willys International of Toledo, Ohio, while of more recent origin (1952), is perhaps more spectacular than that of other manufacturers in Brazil. Willys attained the required degree of nationalization ten months ahead of schedule and in addition to manufacturing jeeps and utility vehicles is the first U.S. firm to turn out passenger cars. The original plan filed by the

company for the manufacture of cars anticipated an agreement with Chrysler Corporation to produce the 1956 Plymouth Savoy model. The original Willys-Chrysler proposal was one of nine plans approved for passenger car production and would have given Willys-Chrysler the lead by 1960 in the output of passenger vehicles—a lead now held by European manufacturers. In March 1958 Willys advised the Brazilian government that arrangements with Chrysler had been called off, and filed instead a plan to produce the Aero Willys. Still later the company entered into negotiations with the French auto manufacturer Renault to produce the Dauphine. In October 1959 Willys completed an axle and transmission plant representing an investment of \$11 million and capable of producing 150 sets of axles and transmissions daily.

Uniquely, 45 percent of Willys common stock is held by more than 15,000 Brazilian stockholders and through 1960 the actual or programmed investment of Willys Overland of Brazil was scheduled to exceed \$25 million. The Chrysler Corporation, in consequence of its inability to carry out its original project, is not expected to be a major participant in the Brazilian program, although the company has investments in Brazil for the manufacture of automotive parts through the firm Brasmotor.

General Motors. The activities of General Motors through the period ending 1960 specified direct investments of approximately \$20 million for a manufacturing program limited to the production of light and medium trucks and bus chassis. In March 1959

G.M. inaugurated facilities for the production of 25,000 engines per year.

International Harvester is the fourth U.S. firm, with an anticipated investment through 1960 of approximately \$4.5 million for the manufacture of a heavy-duty truck, the N-184.

Europeans and Others

Although Ford, General Motors and Willys provide the lead in all categories of the Brazilian program with the exception of passenger cars, strong competition in truck, jeep and utility vehicle manufacturing comes from two German firms.

Mercedes-Benz did not begin production of a heavy-duty truck until 1958 but by the first quarter of 1959 their production rate exceeded that of General Motors and Ford. The company is active in the assembly of buses and has plans to produce a passenger car. The Mercedes-Benz investment is estimated to exceed \$20 million.

Volkswagen, in November 1959, completed construction of a new plant for the manufacture of utility vehicles, Microbuses, and passenger cars. The company had an approved plan to produce 15,000 cars by 1960. Its original investment plans, exclusive of Brazilian currency expenditures, were scheduled to exceed \$15 million.

Other European manufacturers are primarily engaged in the passenger car or utility vehicle programs. These include the Brazilian licensee of DKW (Vemag), Simca and Borgward. The last recently announced the introduction of a luxury-model passenger car. Investments planned by these three firms are considerably less than those

of the big German and U.S. makers: from Vemag's \$3 million to Simca's \$10 million.

The Japanese industry, represented by Toyota, operates under an approved program for the manufacture of a land cruiser, a vehicle similar in design and function to the jeep. The Toyota program called for a production of 4,500 vehicles in 1960 and an investment of \$1.6 million. Although company production was scheduled to begin in 1957, it did not get under way for two years.

A combination of factors has prevented the U.S. firms from playing a major role in the passenger car plan. Recognizing that emphasis was first given to trucks and utility vehicles and recognizing the delay which resulted from the Willys-Chrysler arrangement, it is nevertheless probable that the standard U.S. passenger vehicle is still too costly to manufacture for the Brazilian market. By the end of 1958 the first passenger car production recorded in Brazil was the 2,000 units of the Vemag DKW.

THE AUTO PARTS INDUSTRY

It has been pointed out that an assembly industry existed prior to the announcement of the national plan. An auto parts industry also existed prior to that time although manufacturers in the parts industry received considerable encouragement and their growth has equalled if not exceeded growth in the vehicle manufacturing sector. In 1948 twenty firms were manufacturing auto parts and components. By 1953 the total number of firms in the industry rose to 300 and in 1959 the total reached 1,200. These firms employed more than 90,000 persons and engaged in the manufacture

of parts and components under 102 separately approved plans authorized by GEIA. In the parts industry the activity of U. S. firms is also significant. A partial list includes the Clark Equipment Company, Eaton Manufacturing Company, Firestone, Goodyear, General Tire, Goodrich, the Bendix Corporation, Bundy Tubing, Champion Spark Plug, Thompson Manufacturing Company, Timken, Rockwell Standard, and Westinghouse.

The 102 projects originally approved by GEIA for parts manufacturing called for an additional total investment of almost \$130 million by the end of 1960. It is further estimated that by this same date the 150 important parts manufacturers represented an investment of \$400 million. The continuing attention given this sector of the industry has not been misplaced. It was the development of the parts and components manufacturers which spelled the difference between an assembly industry and a true manufacturing auto industry. Despite growth in this sector foreign exchange expenditures are expected to average \$70 million for the importation of parts and accessories in the period 1957 through 1963.

THE INDUSTRY'S FUTURE

The successful completion of the first phase of GEIA's program does not guarantee that the industry will have an easy time in the future. A recurring question is the ability of the Brazilian economy to absorb the output of the automotive industry. A key factor is the lack of credit, both commercial and consumer, which continues in short supply despite the efforts of GEIA to devise remedies. Banking officials are doing little. They main-

tain that their hands are tied because the Brazilian banking setup does not provide central direction for the creation of consumer credit facilities.

The Credit Problem

GEIA has attempted to promote the establishment of consumer credit agencies, but success is minimal. Dr. Sidney Latini, Secretary-General of GEIA, stated that there is no lack of purchasing power in Brazil and he was quoted as saying that Brazil is in that stage of industrialization in which the capital market for medium- and long-term credit is just now getting under way. Nevertheless the stimulus to save and generate funds available for medium-term credit has been frustrated by the inflationary condition in that country. The automobile industry until now has been financing its sales largely with its own resources. Dr. Latini estimated that approximately \$150 million per year would be needed in order to finance the sale of vehicles, assuming an 18-24 month loan period with a down payment of 30 percent. The austerity measures initiated by the Quadros administration, and the present political uncertainty, do not lessen the problem. Industry representatives do not expect an easing of the credit problem within the foreseeable future.

The Price Problem

A second problem plaguing the industry is the matter of prices. Vehicle prices for items manufactured in Brazil are approximately twice as high as U. S. prices for comparable items. This problem was underscored approximately a year ago when efforts to export vehicles from Brazil were under way. In one instance, Volkswagen planned to ship 300 trucks to

the United States, to be competitive in the U. S. market with a price tag of \$1,290 compared to its Brazilian price of \$2,850. The deal was called off because of adverse reaction in the press although the company stated that it stood to gain much-needed dollars. GEIA officials do not regard the question of prices as insoluble once the so-called incipient period of manufacturing is over. They consider that erratic actions on the part of the Brazilian government have caused artificial fluctuations in the price of basic materials needed in the industry. As these contribute to unusually high prices for the final product it is conceived that the difficulties can be eliminated by administrative action. In another instance Willys tried to export jeeps to Peru but learned that costs increased by 20 percent between the time that the vehicle left the plant and the time that it was placed on board ship. Again, government action put an end to this experiment when it specified that any such exchange had to be for hard currency whereas Willys was attempting to barter.

About one-third of the cost of the final product goes to the government in the form of taxes. Materials and components are judged to be approximately 20 percent more expensive in Brazil than in the United States. Responsible for the problem of high material prices is the continuing need to import such basic materials as steel, rubber and nonferrous metals. Despite governmental actions to increase domestic capacity for such commodities, supplies continue to be short. Even though steel capacity is being expanded and new plans for the manufacture of synthetic rubber are under

way, it is predicted that the growing demand of the auto industry and other industrial sectors will outstrip even the expanded production facilities for the basic materials once they become available.

The Production Problem

There is yet another factor contributing to high prices which apparently will be more difficult to solve than the matter of material costs or taxes. This is low production volume. GEIA has been criticized for approving too many programs requiring separate and duplicate facilities for the manufacture of essentially the same product. For example, in 1958 seven manufacturers were operating under approved programs for the manufacture of heavy trucks. Four manufacturers had government-approved programs for the production of jeep-type vehicles. Nine manufacturers had approval for the manufacture of passenger vehicles. That there are diseconomies associated with the low utilization of existing facilities is not questioned. Industry volume for both proposed and actual production for the period 1957 through 1960 is shown in Tables II and III. GEIA originally announced the objective of producing slightly more than 500,000 vehicles during the four-year period, but actual production only reached 60 percent of that figure. There is some confusion about industry performance during this time period since the government, independently of GEIA, fixed targets for the auto industry at 110,000 units for 1959 and 170,000 units for 1960. These goals were announced as part of the national economic development plan to cover the period 1957 through 1961. Industry outputs even compared

TABLE I
NATIONALIZATION INDICES* FOR THE BRAZILIAN AUTOMOTIVE INDUSTRY
1957-1960

Date	Trucks	Jeeps	Utility/Light Trucks	Passenger Cars
July, 1957	40%	60%	50%	50%
July, 1958	65	75	65	65
July, 1959	75	85	75	85
July, 1960	90	90	90	95

* Percentages by weight of completed vehicle.

Source: Compiled from Executive Decrees Nos. 39,569, 39,676-A, 39,568 and 41,018, published by the Brazilian government.

with the more conservative figures were short by approximately 20 and 30 percent for those two years. The difficulty to achieve even the lesser targets, with the implication of under-utilization of facilities, would lead to the conclusion that quite realistically the Brazilian industry is not yet in a position to compete internationally and so achieve the market expansion and foreign exchange earnings cited earlier as the post-1961 objectives of the Brazilian government.

APPRAISAL

There is little doubt that the Brazilian industry has achieved the capacity which was specified by GEIA for the first three-year phase of the program. There are, however, certain built-in rigidities as a result of the national plan which are now being felt. For example, even though GEIA has not effectively placed output ceilings for any manufacturer, under the authority granted GEIA by the original decree, there still exist limitations on foreign exchange required to purchase the remaining 2 or 3 percent of the non-nationally manufactured items. By restricting the exchange quotas or by setting limitations on the number of items which can be imported, GEIA

does nevertheless operate to effectively limit the production of certain manufacturers. With the termination of relief from import duties and other taxes at the beginning of the current year it now becomes difficult for manufacturers to bring in additional equipment which might be used to improve operations or to introduce new models. In this way there is curiously lacking in the Brazilian industry the competitive climate of the U. S. or European industries.

Yet from the Brazilian point of view the first phase of the operation of the national automotive plan must be termed a significant success. Foreign exchange has been diverted from expenditure for imported vehicles to the importation of capital equipment, a move which has important long-term benefits for the economic development of the country. Where there have been errors on the part of the automotive planners it is not inaccurate to suggest that these errors stem from optimism and perhaps inexperience in the operation of a project of this type. Some private industry spokesmen feel that the nationalization indices proposed and carried out by the Brazilian government were unrealistic and have cited this as a principal cause for the

TABLE II
PROPOSED BRAZILIAN AUTOMOTIVE PRODUCTION

1957—1960				
Year	Trucks	Jeeps, Light Truck & Utility	Passenger Cars	Totals
1957	20,500	16,750	750	38,000
1958	35,130	24,200	21,800	91,130
1959	58,158	50,656	61,050	169,886
1960	83,380	61,070	87,800	232,250

Source: *Brazilian Bulletin*, Brazilian Government Trade Bureau, Dec. 15, 1959; *Desenvolvimento & Conjuntura*, Vol. III, No. 5, May, 1959; also *Survey of the Brazilian Economy*, Brazilian Embassy, 1960.

TABLE III
ACTUAL PRODUCTION OF THE BRAZILIAN AUTOMOTIVE INDUSTRY
1957—1960; ESTIMATED PRODUCTION 1961

Year	Trucks	Jeeps, Light Truck & Utility	Passenger Cars	Totals
1957	18,847	11,853	—	30,700
1958	30,926	28,014	2,189	61,129
1959	35,994	40,977	10,858	87,829
1960	38,544	47,924	33,270	119,738
1961*	29,500	55,000	45,000	129,500

* Estimates for 1961 from private industry source.
Source: Same as Table I.

inability of U. S. passenger car manufacturers to participate in that part of the plan. There is also feeling that manufacturers who had substantial investments in the auto industry prior to 1956 were forced to accede to the demands of the Brazilian government or to be placed in a position in which they could not compete with those in sponsored programs. There is little reason to doubt that these feelings accurately portray the dilemma faced by some manufacturers.

Still for all participants and primarily those from the United States the experience in Brazil must constitute a somewhat novel and unique period of development. These manufacturers find themselves in a truly international situation and subject to a

series of constraints and inducements which are firmly structured by the government of that country. Like their European colleagues they are responding well and are apparently banking on the determination of the present Brazilian administration to encourage continued development by private enterprise in Brazil. The original decree establishing the national plan specified that no further state enterprises would be organized and approved for participation in the industry. At the same time these firms are counting heavily on basic social and economic changes which will mean the future establishment of the mass market for the products of the automotive industry.

It must be concluded that on balance the national plan in Brazil does

provide both an economic compromise which satisfies the national aspirations of an emerging country and at the same time a climate which stimulates foreign investment. The idea of an executive group to direct the activities of an industry is being tried elsewhere in Brazil. The idea of the national plan has also been expanded in that country. Approximately two years ago there was announced a program for the manufacture of agricultural tractors, patterned after the automotive vehicle plans. This was placed under

the jurisdiction of GEIA. In Argentina a similar plan was undertaken on a somewhat smaller scale.

Economic development in the emerging nations will not necessarily follow traditional patterns. It may appear paradoxical that on the one hand these developing nations must encourage direct foreign investment while on the other hand there are expressions of the strongest nationalistic sentiment opposed to direct private foreign investment. The example of the Brazilian automotive industry would seem to chart a middle course.

Announcing

THE EXECUTIVE SEMINAR IN SALES MANAGEMENT

JANUARY 14-19, 1962, EPPLEY CENTER, MSU

Designed for managers concerned with field selling operations. A curriculum balanced between new developments and proven fundamentals, between concepts and practice. Fourth consecutive year.

For further information, write:

Dr. William J. E. Crissy, Seminar Director
Graduate School of Business Administration
Eppley Center, Michigan State University
East Lansing, Michigan

JOHN FAYERWEATHER

A Principled Approach To Overseas Taxation

*The dangerous philosophical implications
of the present Treasury proposal to tax
all income from tax haven transactions*

The Kennedy administration's initial proposals to tax retained earnings of foreign subsidiaries of U. S. companies were accompanied by much sound and fury at the expense of application of basic principles of taxation. Fortunately the House Ways and Means Committee, perceiving the economic and administrative weaknesses of the hastily developed Treasury plan, has set the whole matter aside and prevailed upon the Treasury to present a modified proposal. Thus we now have before us a substantially less radical plan and time in which to consider it soberly before Congress takes it up in the spring of 1962.

At the root of this matter is the widespread practice of financing overseas investments from retained earnings channeled through so-called tax haven countries. The initial postwar surge of foreign investment by U. S. companies was largely dependent upon

capital exported from the United States. However, as earnings from overseas operations began building up, managements quickly perceived that it was uneconomical to repatriate them to the United States as dividends and then send forth further capital for new investments. The dividends would not be subject to the full 52 percent corporate tax because our government allows a credit for foreign income taxes paid. But, since taxes in most countries are lower than ours, there was almost always some benefit if the earnings were kept out of the United States.

In its simplest form, this practice merely involves the use of earnings in one country to expand operations in that country. Most interest, however, has centered around the shifting of profits from country to country through "base companies" in "tax haven" countries. The essential characteristic of a tax haven country is that

its taxes on earnings from outside the country (dividends, licensing fees, etc.) are negligible. Thus a base company can receive earnings from operations in one country and dispense them to another country with little tax loss.

There is nothing new about the tax haven concept. A few companies were using them before World War II. However, with the great expansion of U. S. international business and the high level of U. S. taxes, they have mushroomed tremendously in the past decade. One current report lists close to 500 U. S. corporations now established in Switzerland¹, many of them newly arrived in the past two years, and a host of base companies are to be found in the other popular tax haven countries: Liberia, Liechtenstein, Panama and Venezuela. While there are unquestionably a few companies which skirt the law, for the most part these operations are quite legitimate.

Up to a year or so ago, the general principle of U. S. companies expanding through retained earnings free of U. S. taxation was not seriously questioned. The main attention was devoted to developing a system whereby the same result could be accomplished without the complications and risks involved in tax haven countries. (Until a couple of years ago Cuba was one of the popular tax havens!) An idea evolved of creating a U. S. chartered "foreign business corporation" which could receive foreign earnings free of taxes until it paid them out as dividends to its parent corporation. This idea was strongly advocated in a Harvard Law School research study² (which interestingly was directed by Stanley S. Surrey, currently Assistant Secretary of the Treasury) and has been con-

sidered in Congress for some time as H.R. 5 (sponsored by Representative Hale Boggs), which had a degree of support from the Eisenhower administration.

While President Kennedy's February 6, 1961 message to Congress dealing with the balance of payments situation called for correction of "abuses" of tax havens, the specific proposals in his April 20 tax message went much further. The most important provisions were that all retained earnings of U. S. subsidiaries in "developed" countries and retained earnings from "tax haven operations" in other countries were to be subject to U. S. taxes. In his subsequent testimony Secretary of the Treasury Dillon argued for these changes chiefly as a source of new tax income to compensate partially for the losses under the proposed domestic investment incentive scheme and as a way to reduce the U. S. balance of payments deficit through increased remittance of earnings to the United States to pay taxes, and through discouragement of capital exports for new investments. The depressed level of the U. S. economy was also apparent as a political factor in the proposal. The theory that rapidly growing U. S. foreign investments were "exporting jobs" by replacing U. S. exports had gained considerable currency and was used as a strong argument in a Congressional speech by Senator Gore on January 9, 1961, in which he made tax proposals quite similar to those subsequently adopted by the administration.

In the hearings before the House Ways and Means Committee in the first week of June, the industry representatives presented a strong, if rather hastily prepared, case against the

proposals. Their arguments rested mainly upon the net balance of payments advantage to the United States from the inflow of earnings which exceeds the outflow of capital and the importance of giving our business sufficient freedom to be able to compete effectively abroad. The chief support for the government position came from labor spokesmen who argued against rapid increases in overseas investments along the "exporting jobs" line. The Committee was highly critical in its questioning of the administration and took note of the administrative complexities of the proposals such as how the distinction between "developed" and "underdeveloped" countries was to be made. It soon became clear that the Treasury was largely concerned in any case with tax havens. Thus the Committee suggested that it drop the developed countries part of its plan and draft a proposal on tax havens which could be analyzed thoroughly and debated widely before the next session.

On July 28, 1961, the Treasury released its new draft bill under which all income from "tax haven transactions" of U. S. overseas subsidiaries would be subject to U. S. taxes. All of the significant types of income earned by base companies are included: profits from purchase and resale of exports to other countries, commissions as an agent for such transactions, licensing and servicing fees, dividends from subsidiaries in other countries and insurance fees. There are various technical aspects concerning degree of ownership, etc. designed to focus the impact in the desired direction. The result for practical purposes would be to tax the earnings of base corporations as though they were domestic U. S.

corporations with allowance of a credit for such foreign taxes as have been paid.

FISCAL AND ECONOMIC CONSIDERATIONS

I have discussed the fiscal and economic aspects of this subject at length in another article³ and adequate treatment of the principals of taxation will not permit thorough discussion of those aspects here. To summarize, however, I believe that the following points have been established:

1. The potential increase in tax income is too small to justify any change which would have otherwise undesirable effects. The gain from the initial proposal was estimated at \$250 million or about 0.25 percent of the total budget, a useful but not major addition.

2. The overall balance of payments gain initially estimated by the Treasury at \$525 million was of real significance when compared with the 1960 deficit of \$3.5 billion. However, analysis of the results of a survey by *The International Executive* of 56 companies accounting for 40 percent of overseas manufacturing investment⁴ along with other data indicated that the actual short-term gain would be considerably less. Earnings would be repatriated to pay only about two-thirds of the additional taxes (the balance being paid from domestic funds), the removal of the tax deferral would result in voluntary repatriation of additional funds by only 18 percent of the companies surveyed and, while companies said that the new taxes would deter new investment, there were indications that the reduction would be small.

3. The long-run balance of payments effect would be adverse. Historically investments result in a net inflow of dollars. For example, from 1950 to 1960 the outflow of new capital of \$12.2 billion was far surpassed by the return flow of \$21.3 billion of dividends—and this was a period of relatively large capital outflow and substantial overseas retained earnings (about 50 percent of total earnings). Furthermore subsidiaries make large purchases from the United States accounting for some \$2 billion of our exports (about 10 percent of the total).

4. Because most overseas manufacturing is undertaken only when exports are impossible either because of import restrictions or lower cost competition from other foreign sources, reducing investments will not help our exports. On the contrary it will result in complete loss of markets to foreign competitors whereas through investment we retain as indicated above some portion of our exports.

On balance then, the Treasury proposals seem to offer some, though not major, immediate gains for government revenue and the balance of payments with perhaps some overall reduction in foreign investment which is undesirable both for business and the balance of payments in the long run. But I feel that these economic and fiscal arguments have been overstressed in the discussions. The Treasury proposals raise some very troublesome questions of principle which in the absence of very compelling fiscal or economic problems should receive prior consideration.

THE PRINCIPLES AT STAKE

As a basis for judging the merits of

this proposal we must start from fundamental principles of taxation upon which wide agreement is possible. Four such principles are involved:

- That taxes should be levied with maximum fairness to assure equal competitive status for taxpayers.

- That the corporate entity is respected and a stockholder is not required to pay taxes on the earnings of a corporation until he realizes them through dividends or some other means.

- That a government does not have the right to tax outside its own sovereignty.

- That profits should be taxed by the government within whose jurisdiction they are earned.

The knowledgeable reader will immediately note that there are various deviations from all of these principles in our current tax structure. Still, each represents an ideal to which we try to adhere and which most people would agree is in our best interests. Thus they provide a reasonable basis against which to measure the proposals to tax the earnings of base companies.

Fair and Equal Treatment

The Treasury proposal would treat all U. S. companies equally but it would substantially alter the present competitive status of U. S. business in relation to companies of other nations. As matters now stand a U. S. company, once it leaves our shores, can function on essentially an equal tax status with German, British, and other companies. The major international companies of these countries are quite aware of the tax haven concept and have set up their operations accordingly. There are for example a number of German base

companies in Switzerland. Thus a fundamental element in the competitive position of any international operation today is the ability to expand facilities with earnings which have not been reduced by the full amount of domestic tax rates.

If now U. S. companies are to be subject to full U. S. tax rates, they will be placed at a distinct competitive disadvantage. Consider, for example, the relative status of a German company and a U. S. company, each deriving profits from a Belgian operation which it wishes to reinvest in a new Mexican plant. The comparison is a good one because the German domestic tax on retained earnings is 51 percent, quite comparable with our 52 percent. As matters stand each can set up a base company in, let us say Switzerland, and receive the earnings from Belgium with a loss only of the 28.5 percent Belgian income tax and a small Swiss tax. For every \$100 earned in Belgium, therefore, \$71.50 is available for investment in Mexico.

Under the Treasury proposal, however, the U. S. base company in Switzerland would pay the U. S. tax of 52 percent less the credit for the Belgian taxes paid. (Actually since the benefit of the tax haven would be removed the company would be more likely to eliminate that step and receive the dividends in the United States but the tax and competitive impact is the same in either case.) Thus only \$59.80 would be available for reinvestment in Mexico for every \$100 of Belgian earnings. (The actual total tax loss is less than 52 percent because of the so-called grossing-up system under which the foreign tax is taken both as an initial cost and as a credit. The Treasury has

proposed removal of grossing-up. If approved, the proposal would result in an effective tax of 52 percent on overseas earnings upon remission.) The impact of the change can be figured in various ways: the U. S. company requiring greater capital to achieve the same results, the Germans with more capital proportionately available and thus in a position to expand more quickly, etc. The significant point, however, is that U. S. companies will be placed at a measurable competitive disadvantage. This in itself is counter to our principles. It is particularly questionable, however, at a moment when U. S. business seems to be losing ground in the international market place in competition with resurgent European and Japanese businesses.

The Corporate Identity

Respect for the corporate individual is one of the most fundamental aspects of our business system. In legal, taxation, and other matters the corporation is distinct from its stockholders. They have no obligation to pay taxes on the earnings of the corporation. Most U. S. corporations which own the stock of domestic subsidiaries do in fact pay taxes upon the retained earnings of their subsidiaries through the medium of consolidated accounts. It is important, however, to note that they do so of *their own volition* because as a practical matter the subsidiary would also be subject to U. S. taxes and there are certain advantages in consolidating accounts for tax purposes. The mere fact U. S. companies commonly pay taxes on their subsidiaries' earnings does not therefore violate in any way the principle of corporate identity.

The Treasury proposal to tax the retained earnings of overseas tax haven corporations is sharply at variance with this principle. It would override the identity of the tax haven corporation, in effect *requiring* the parent to consolidate its accounts. The apparent reasoning behind this violation is that the corporate identity in such cases is largely a fiction, that for practical purposes all units of a large international operation are integrated. It is hard to argue such a proposition because it assumes something of the "a little sin is all right" discussion. As I see it, either we respect the corporate identity or we start down a long road of debatable decisions as to when it should and when it should not be respected. This latter course, I suggest, will be destructive of the underlying sense of confidence which is essential for the creative and dynamic aspects of the free enterprise system. Thus I don't believe that it is pertinent to argue to what extent a tax haven corporation is really an independent entity. So long as it is properly incorporated, its identity should be respected as such and it is not legitimate to tax it through the control of the parent corporation.

National Sovereignty

If the identity of a tax haven corporation is respected, then the only way the U. S. government can tax its earnings is by asserting that it has jurisdiction over it. This raises important questions of national sovereignty. The United States does tax foreign corporations on their earnings in the United States just as foreign governments tax the earnings of branches of U. S. corporations operat-

ing within their borders. No one questions this as it conforms to the principle of taxing in the place where income is earned, which will be discussed below. The fact that a business is incorporated in another country does not mean that all of its activities fall solely in the jurisdiction of that country and no question of national sovereignty is raised.

A somewhat more questionable point arises in the current U. S. practice of taxing the earnings of overseas branches of U. S. companies as a part of the consolidated company income. While it might be argued that this is not legitimate, the position would be relatively weak because, under present laws, a company could readily incorporate overseas and thus escape U. S. taxes. Except for small sales offices, the majority of branch operations are in fact maintained as such deliberately to obtain certain U. S. tax advantages. For example, mining companies can obtain depletion allowances for consolidated branch operations but not for dividends from overseas subsidiaries. From the government point of view separating the operations of the branches from the rest of the company for tax purposes would clearly present considerable complications as compared to the natural division between the operations of parent and subsidiary corporations. Thus, so long as the option to set up an overseas corporation insulated from U. S. taxes exists, the possible infringement of sovereignty involved in taxing foreign branches is not troublesome.

The Treasury proposals, however, are the first step in removing exactly that option and in their nature they clearly overstep the legitimate boundaries of

sovereignty. They claim that the U. S. government has a right to tax the earnings of, say, a Swiss corporation from licenses granted to a German firm. This right is claimed on the basis that the Swiss firm is controlled by a U. S. corporation and that the licenses originated with the parent. The latter point raises questions of fair payment but that is a distinct question which is not at issue here and will be dealt with below. The Treasury does not seek to tax a portion of the earnings of the Swiss company. It claims a right to tax all of its earnings from tax haven transactions. Thus the issue revolves around whether the intimate relation of the subsidiary to the parent somehow gives the U. S. government a jurisdiction which transcends the normal limits of sovereignty.

There is no apparent justification for such action. The situation in the application of the antitrust laws provides the closest parallels. The U. S. government has named foreign subsidiaries and independent foreign firms as defendants in a number of cases. In each instance, however, it has had to defend extensively its right to do so on the basis that the foreign firms were parties to restrictions of U. S. commerce. And, even at that, its rights have been seriously questioned abroad. For example a British court recently enjoined the enforcement of an antitrust decree in that country.⁵ The justifications for extraterritorial taxation of tax haven companies, increased income for U. S. government and aiding the balance of payments problem, seem relatively far weaker than those for extension of the antitrust laws to protect competition in foreign commerce.

Accordingly I think that both U. S. business and foreign governments have a strong case in claiming this is an unjustified invasion of foreign sovereignties.

Quite aside from the question of principle, there are also some practical problems of tax administration which the Treasury does not seem to have considered. Equitable tax administration necessitates the ability to examine and, if necessary, subpoena corporate records. There are always a few who would evade taxes and the system, to be fair, must provide for enforcement of the tax regulations. Taxation of tax haven companies would therefore require the cooperation of foreign governments and this may be very difficult to obtain. Referring again to the antitrust situation, foreign governments have been notably uncooperative in attempts to obtain records. For example, faced with such a request in 1950, the Ontario legislature passed a bill prohibiting compliance with foreign court orders involving the production of business records.⁶ The difficulties might be expected to be especially great in Switzerland, the country with perhaps the largest number of base companies. The Swiss are noted for their hard-nosed adherence to principles of sovereignty, justice and privacy of business affairs, the latter characterized by their famous banking secrecy laws under which banks may disclose information about depositors only in serious criminal cases. It can, I think, be predicted with considerable certainty that attempts by U. S. revenue agents to obtain Swiss government aid in obtaining access to base company books will fall on deaf ears.

Origin of Earnings

Application of the first three principles establishes a very firm case against blanket taxation of all tax haven transactions of foreign base corporations. Consideration of the fourth principle, however, opens the door to some refining of present tax regulations, and perhaps new legislation. As indicated above, we already apply this principle in the taxation of that portion of the income of foreign corporations which is earned in the United States. It is also the accepted basis of division of taxation among states, each state taxing a corporation according to its earnings within its jurisdiction.

In a thoughtful editorial in *The Tax Executive*, Leonard E. Kust of Westinghouse Electric Corporation has suggested a major realignment of international taxation with this principle as the keystone.⁷ His thesis is essentially that business activities within each nation should be taxed there only, thus eliminating all problems of double taxation and the need for tax credits. A U. S. company operating in Belgium would pay only local taxes on its earnings in Belgium and no U. S. tax on dividends remitted here. This would place it on a fully equal basis with local Belgian business. As a matter of principle this proposal seems eminently sound. Unfortunately the tax loss involved for the U. S. government would probably be too great for it to receive serious consideration, at least at this time.

But this line of reasoning does provide a sound ideal toward which we should work in considering any specific problem such as the present Treasury proposals. In his testimony

Secretary Dillon cited the allocation of profits among subsidiaries as a major factor in support of the administration proposals. The specific example he described, however, indicated that the Treasury thinking was directed more at maximizing tax income than establishing a system based on sound principles. The example was that of a German subsidiary whose accounts were so adjusted that half of its profits were reported in its own operations and the other half siphoned off into a Swiss base company by high charges for exported components and other devices. The primary tax loss in this case is actually to the German government, and, to the extent that the excess earnings eventually reach the U. S. from the tax haven company, the U. S. government will gain tax income which it could not have expected if the Germans had strictly enforced their tax regulations. It is well known that tax haven operations do benefit from such practices and the German and other governments involved are apparently quite aware of what is happening. They have their own reasons for managing their tax affairs as they do. The benefit to the tax haven company exists but, since it was money earned in Germany, the U. S. government has no more right to tax it than it would if it had been kept in Germany.

Following this example, Secretary Dillon spoke in general terms of similar practices in which U. S. companies attribute a "disproportionate share of profits to the trading, licensing and servicing companies established in tax haven countries—a practice that is extremely difficult if not impossible for the Internal Revenue Service to police effectively." Here we come to the point

where the Treasury position rests upon a solid foundation. Certainly the U. S. government has a right to tax all earnings which are properly attributable to domestic sources. For example, if a patent is developed through investment of research effort in domestic laboratories and then assigned to a tax haven company, the licensing fees from the patent can correctly be claimed to be earnings derived from the domestic research. Likewise, when products are exported, the domestic manufacturing operations should receive a fair profit. If they are sold at cost to a tax haven company, some portion of the earnings when they are resold is properly taxable as U. S. earnings.

DIFFICULTY IN POLICING

But the problem in this instance is not in the lack of taxation authority but rather, as Secretary Dillon says, in difficulty of policing. Our existing legislation already gives the government the right to tax all earnings properly assignable to domestic operations and the authority to examine books, reallocate costs, etc. as needed to accomplish this end. This type of policing is not unique to the tax haven situation. It has been necessary for many years in supervising the Western Hemisphere corporations, to be sure that an excess of export sales income is not attributed to them to obtain the 14 percent tax advantage, and allocation problems appear in other non-international tax situations.

The tax haven transactions do, however, pose a difficult policing problem because of their complexity, their rapid growth and their location. It takes little imagination to visualize

the problems of the Revenue Service working on a limited budget in trying to trace the involved licensing, service and sales transactions of hundreds of base companies located in countries spotted all over the globe. Thus, one must view with sympathy the current effort to solve the problem with one sweeping action by making all base company earnings subject to U. S. taxation.

TAXABLE INCOME

Viewed critically, however, this solution seems scarcely appropriate and might not in fact even solve the problem. The proposition is that all income of tax haven companies shall be taxed. Yet we can distinguish three types of income in these operations of which only one is properly taxable.

First, there is income from activities which, while they fit the Treasury definitions of "tax haven transactions" are legitimate commercial operations and thus properly earned within the country where the company is located. For example, the first category in the Treasury draft is "income from the purchase of goods from a related entity and the sale of such goods for use outside the country." This is clearly directed at those situations where goods are exported at nominal profit and then resold for a good profit by the base company. But in fact, the provision also taxes the legitimate profits of a company which for sound commercial reasons maintains a central sales office in Switzerland and is entitled to earn a reasonable profit on the investment which it requires. The same is true of service, licensing supervision and insurance operations.

Second, there is income derived from the reallocation of profits among foreign units such as the German case cited earlier. Whether or not this is justified income for the base company by our standards, it can not be claimed that it is properly attributable to the domestic company.

Third, there is the income which is actually assignable to a U. S. origin.

To tax all three types of income, simply to capture the latter, can not be justified on the basis of principle. We have therefore to consider whether it is the only practical way of avoiding a significant tax loss. The answer would appear to be "no" because even this new power will not go far to solve the problem. The problem, of course, lies in the main with companies who are willing to skirt the law and will hire smart lawyers to help them. The Treasury proposals are more of a challenge than a deterrent to the latter. Their fertile minds are already contriving ways to get around the Treasury proposals and they are likely to be quite successful. The fundamental weakness of the Treasury's plan is that it is a lonely arm reaching out in a wide world with a rigid aim as distinguished from taxation within the United States which comprehensively covers all avenues of possible tax evasion. The Treasury will find it has taken on as difficult a task as Hercules' struggle with the Hydra because for every avenue of evasion it cuts off, two new ones will spring up in some other part of the world.

Furthermore, as I have indicated above, enforcement against the evasive tax delinquent must rest upon the cooperation of the legal authorities of the tax haven countries and this may

be very difficult to obtain. One can readily visualize the unscrupulous hiding behind the proud adherence of the Swiss to strict principles of sovereignty and personal privacy. And this possibility is greatly enhanced if we are attempting to tax income which is properly of Swiss origin along with that which is attributable to the United States.

ADMINISTRATIVE PROBLEM

The Treasury proposals therefore seem an unsound and not too promising solution. But the problem is real, and some action is called for. It seems to me that the point to stress in the problem is the administrative one which involves business in other countries and which can only be resolved with the cooperation of administrative and legal authorities in those countries. This cooperation can be expected only if the objectives and actions of our Revenue Service are acceptable by their standards. It is possible for the government agents of one country to work effectively within another. For example, the customs agents of this country regularly examine company books in other countries and vice versa to check valuations. As all countries agree that determining proper valuations is legitimate activity, this practice is accepted.

By the same token, if we stick to sound principles of taxation we have a reasonable chance of obtaining cooperation abroad. Specifically, we must rest our case on the one point on which we have a legitimate claim—the right to tax earnings which properly are attributable to U. S. operations—and avoid the two areas where the Treasury proposals violate sound principles and will

be offensive to foreign governments: overriding the corporate identity and invading national sovereignty.

Need For Legislation

Theoretically, no new legislation would be required to pursue this course of action. However, the difficulties the Treasury has encountered and the need to obtain cooperation abroad make some positive action desirable. I would suggest therefore that legislation be passed which spells out specifically the types of income which tax haven corporations have been earning which are properly considered U. S. income. The definitions would be along the lines of those in the present Treasury proposal but would clearly distinguish between the income we may rightly tax and that which is of true foreign origin. The authority of the law would be concerned only with the right to reallocate income and costs of the domestic corporation and not claim any right to tax the foreign corporation. If it seemed appropriate, the law might also specifically direct the Treasury to seek the cooperation of foreign governments in examining the books of subsidiaries and to offer reciprocal cooperation for governments seeking to examine books in this country. Realistically, it must be accepted that perfect cooperation may not be obtained. However, if we approach foreign govern-

ments upon this basis, our position is strong, for we are in effect seeking cooperation in the enforcement of valid and proper domestic laws.

SUMMATION

The Treasury has a real problem in the loss of revenue through transactions which divert into tax haven companies income properly attributable to the U. S. parent corporations. But the proposal to tax all income from "tax haven transactions" as defined in the Treasury draft is a poor solution. It transgresses the basic principles of equity, corporate identity, and national sovereignty. Its indiscriminating definitions would result in taxation of portions of the income of tax haven companies which are not properly attributable to U. S. origins, thus violating the principle of taxing according to the source of income. And these breaches of principle risk offending the authorities of foreign governments whose cooperation is essential for tax law enforcement beyond our borders. A far better solution would be to enact a law specifically defining the types of income attributable to U. S. origin which are by accepted principles subject to U. S. tax but have been evaded in tax haven operations and actively to seek reciprocal cooperation of foreign governments in enforcing the regulations.

1. *Switzerland*, Rundt's Market Reports, August 1, 1961, p. 42.

2. E. R. Barlow and Ira T. Wender, *Foreign Investment and Taxation* (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1955) p. 315.

3. John Fayerweather, "The Principles, Facts and Politics Underlying Overseas Tax Proposal," *The Commercial and Financial Chronicle*, May 18, 1961, p. 1.

4. "And Industry Gives Its Views," *The International Executive*, Spring 1961, p. 33.

5. "Extraterritorial Application of the Anti-trust Laws," *Yale Law Journal*, December, 1960, p. 260.

6. *Ibid.*, p. 259.

7. *The Tax Executive*, July 1961, pp. 220-21.

NORTON M. BEDFORD
NICHOLAS DOPUCH

The Emerging Theoretical Structure of Accountancy

*New concepts of corporate goals require
a reappraisal of the accounting function.*

A trend which appears to have considerable significance to accounting has been gaining momentum of late, if for little other reason than the increased recognition of its existence. This is the adoption by the managements of many of the large public corporations of multiple and diversified goals as business objectives. If this trend continues, a new perspective concerning the nature of managerial performance and its evaluation may require further development. The nature of this trend, with some of its implications, has been expressed in the following manner:

What seems to be emerging in practically all large business organizations is a diversification of goals, and enlargement beyond the strictly economic objectives whose influence on management thinking and behavior was so strongly marked in the past.

The new goals are more closely related to the requirements of the external society in which the corporation operates than they are to the internal economic activities. They are

encouraging a gradual merging of public and private interests and values. If this process continues, as it seems likely to do, managers will work increasingly under criteria of public responsibility. Making profits for owners will not be judged a sufficient test of the adequacy of the corporation's performance. Contributions to general economic growth, to advances in productivity, to innovation, to community requirements, to stability of employment, to enlarged public services, and to a variety of similar social objectives will grow in importance as criteria of management performance.¹

The implication of this trend for accounting may be noted by considering briefly the present implicit assumption underlying accounting procedures that there is a single overall goal of managerial activities, profit-maximization.

Fundamentally, the concept of efficient operations is defined in terms of an index which indicates the degree to which a particular goal has been accomplished, whatever the goal might be.² It follows that any index of efficiency implies the existence of a

particular goal or motivation. Reflecting this view of the fundamental nature of efficiency are the following statements:

The realized net income of an enterprise measures its effectiveness as an operating unit.³

The central purpose of accounting is to make possible the periodic matching of costs (efforts) and revenues (accomplishments). This concept is the nucleus of accounting theory.⁴

The definition of accomplishments and efforts in terms of revenues and costs and the acceptance of realized net income as the measure of effectiveness suggest that accountants assume the function of an enterprise is profit or income generation and that such is the goal of management. In addition, the notion is advanced implicitly that the more income generated, the greater is management's effectiveness, and the greater is the accomplishment of the enterprise. Accounting income is thus advanced, and typically accepted by the stockholder, as an index of managerial effectiveness. The content and arrangement of the data in the income statement also seem dependent upon this economic conception of the activities of an enterprise and the income measurement.⁵

New Objectives

If additional objectives of business performance are adopted by the large corporations, questions arise such as who is to articulate the nature of the new objectives, and who is to develop criteria for evaluating the success with which the new objectives are attained. With respect to accounting a particular problem would be the development of a framework suitable for the measurement and communication

of the activities brought about by the adoption of the additional objectives. Related to these questions is the unknown factor of the extent to which the new objectives of managerial performance will compare in significance to the income objective. Conceivably, there is no fundamental reason why the accounting function should not be extended into the area of articulating, but not imposing, the additional objectives of business activity. Similarly, there is no reason why the accountant should not aid in the development of criteria for evaluating the effectiveness with which these objectives are attained. Further, there is no reason why the verification of the expressions of managements in such new areas of endeavor should not be within the province of the audit function of the certified public accountant. There are, however, certain issues posed by the trend toward the adoption of multi-goals by management which accountants should examine fully before taking action along the lines of the implications of the emerging development.

Divergent Opinions

The trend toward the adoption of multi-goals by management seems definite and is being increasingly referred to by various authorities.⁶ There are, however, divergencies of opinion as to the desirability of the development. Some contend it should be curbed or modified. Others believe the trend should be encouraged. The following statement reflects the negative position:

It is precisely the tendency to allow and even to impel the corporations to use their resources for specific ends other than those of a

long-run maximization of the return on the capital placed under their control which tends to confer upon them undesirable and socially dangerous powers and the fashionable doctrine that their policy should be guided by "social considerations" is likely to produce most undesirable results.⁷

Similar objections have been expressed by others.⁸ The implication of the opposition to the development is that compromising the profit-maximization criterion will be detrimental to society because managements will be relieved of a rigid and definable objective for evaluating alternative decision opportunities. On the other hand, proponents of the trend imply that non-income oriented goals are a most practical solution to the dangers inherent in the increased powers of corporations. Other proponents suggest that non-income oriented goals are a reflection of the values of the institutions and groups in which managers live and work, and that the highest level of achievement of corporate managements may be defined in terms of the development and fulfillment of human values at the work place.⁹ These divergent opinions represent value judgments which have not yet been subjected to test. The determination of the final desirability or undesirability of adopting multi-goals, therefore, must await more direct evidence of the effects upon society and business of the adoption by managements of multi-goals.

DEFINITION OF GOALS

Articulation of the nature of the emerging multi-goals and the development of criteria for their evaluation may be no simple matter. It is tempting simply to define additional goals to income maximization without recog-

nizing any particular need to modify the present framework of accounting theory to account for the additional goals. Such a modification, however, would seemingly require the arbitrary adoption of specific goals within the framework without being aware of the effects of such an adoption upon the decisions of managements. It must be assumed, however, that managements will be sensitive to any report on the effectiveness with which non-income objectives are attained. Particularly would this be the situation if the reports are distributed widely among members of our economic society. Thus, by what he measures and reports the accountant may motivate activity in that direction. If the accountant indiscriminately advances additional goals for managements, and proceeds to measure their degrees of accomplishments, managements may be influenced to adopt the goals advanced without considering their relative merits to the company, its participants, or society as a whole. This suggests that goal selections should be made outside the framework of accounting.

Problems of Definition

In the event common goals could be defined which would be accepted by all of society, including managements and participants within corporations, the goal-selection approach might be a solution to the problem. But our society is basically a democratic one wherein diverse structures of values are encouraged, and according to which diverse goals would be adopted. As a result different individuals would be expected to have different sets of values and even those individuals with

common sets of values presumably would attach different degrees of importance to the various values.¹⁰ Therefore, any definition of common goals acceptable to society would either reflect the will of the majority to the neglect of the values of the minority or it would reflect only those goals common to all members of society. Under either definition of common goals, a number of additional values and goals motivating activity would not be measured and reported. Further, any one definition of common goals would be expected to change from time to time as the values of society change.

While the existence of multi-goals is quite apparent in the case of individuals and can readily be sensed by observing what men do, it is often not so apparent that the observation is equally valid for the large corporation. Nevertheless, it may be observed in the statements of the top managements of the large public corporations and it has been noted by students of business. For example, "... the aims of the modern corporation are multiple. They also change from decade to decade," and they "vary from company to company and from time to time within the same company. . . ."¹¹ Philosophically, it seems the multi-value structure of individual values would carry over to the business unit. Notwithstanding the fact that organizations influence individual values, the business enterprise is first and last a composite of individual organisms, and it must be recognized that ultimately the determination of the goals of a business enterprise is the province of its participants (stockholders, managers, customers, em-

ployees, suppliers). These participants have stated, in a number of instances, that the objectives of the large corporation extend to include such goals as maintaining the economic system, developing a desirable public image of the business, and providing for the education of the youth of the nation.

ACCOUNTING'S RESPONSIBILITY

Faced with the existence of multiple goals in the large corporation and the growing importance attached to them, the accounting profession must consider means of broadening its scope to report on the effectiveness with which non-income-oriented goals are attained. It seems evident that this can best be accomplished by first developing the theoretical aspects of the problem from which the applications of the theory to practice could be developed. At the level of theory, the structure of accounting should be broad enough to permit business units the widest possible latitude in defining and achieving their goals. It should provide for the means whereby different entities could have quite different sets of goals and yet be subject to the accounting measurement and communication function.

It would be possible to propose a structure for a broad, abstract, conceptual theory of accounting which would permit such latitude and which could be extended to accommodate the trend toward multi-goals. But there would be little assurance that such a structure is the best for the problem involved or that the profession would accept such a proposal. It is possible, however, to submit with some degree of confidence a framework for the de-

velopment of a broad structure of accounting theory which could provide a basis for the accounting study of the trend toward multiple goals in the large corporations.

THEORETICAL STRUCTURE

The framework begins with the premise that the need for accounting is predicated upon a condition of scarcity, a scarcity of the means available to remove the "lacking" or "wanting" developed from the basic needs and the secondary goals of individuals. In this respect scarcity may be defined in an economic, sociological, psychological, or philosophical sense.

Next the pattern of behavior which evolves from the premise is essentially along the lines of the following frame of reference:

- goals are adopted to remove or relieve the needs which exist;
- means necessary to accomplish the defined goals are selected;
- the nature and extent of the results which can be expected are set forth;
- the stages of progress made toward goal accomplishments are evaluated.

The determination of goals to relieve needs and the acquisition of means must be based upon expectations concerning an uncertain future if there is a time interval between goal selection and its realization. The resulting uncertainty is that the goals adopted and the combinations of means employed may turn out to be inappropriate since the decisions formulated are based upon conditions which are subject to change during the time interval. Goals and means may both change dur-

ing the interval. If adverse changes occur, the anticipated satisfactions of needs will not be accomplished to the degree anticipated. The possibility that the changes may be adverse and expectations will not be realized introduces risk as an inherent element in the processes of satisfying needs. This risk may be described as (1) risk that goals may change, (2) risk that the best means may not be used, and (3) risk that performance in using selected means will not be as expected. The existence of these risks is the primary reason for periodic information concerning the progress toward goal accomplishment. If they did not exist, interested parties would know that progress would be as expected without reports. To accountants this provides a basis for suggesting that the greater the risk element, the more frequently periodic reports should be rendered. It further suggests that the extent of the risk element may be estimated by determining the opportunity for risk which the company faces.

Analysis of Expectations

In terms of the framework for a broad structure of accounting theory, the existence of opportunities for risk suggests that an analysis of the nature of expectations, within the contexts of the various goals and means adopted, may disclose the significant points at which the risk opportunities are greatest. These points may be accepted as the essential referents for decisions on when accounting measurements and communications should be made, in the sense that measurements applied at these points will indicate the manner and degree to which goals are being accomplished. If expectations relative

to goal accomplishments are not being attained within an acceptable range, corrective action may be taken, and means may be applied in alternative manners which may yield results leading to higher degrees of accomplishment.

Multiple Goals

The frame of reference applies to the problem of multi-goals in the following manner. The choices of goals by human organisms, which is the first step in the behavior pattern noted above, is generally a function of a structure or hierarchy of values within individuals.¹² This hierarchy of values is structured according to many determinants, including activities and objects satisfying biological needs and the influences of societal groups and institutions. The needs which appear to be manifested within the hierarchy of values are relieved in somewhat of a priority system, and as one need is relieved it ceases to be operative and another need takes its place as a motivating force.¹³ The same condition is true for enterprise activities. The multi-goals, which are becoming characteristic of larger public corporations, reflect a hierarchy of values which managements are attempting to define for their organizations. In this respect it may be assumed managements will define those goals which, if attained, will remove the "lackings" or needs of the participants according to some system of priority, the standards being defined perhaps according to economic doctrine, sociological and psychological considerations, and political mandates. Since each organization may define its own system of priority, the goals adopted, and hence the remaining

steps in the pattern of behavior outlined above, will represent the divergent needs which are assumed to be characteristic of corporations.

Development of Data

The data which are needed to define systems of priorities for the large corporations, however, seem to be nonexistent, and this may be an area where accounting research could make a significant contribution. Allocating the means available to the corporation to satisfy the needs of its participants (stockholders, employees, customers, suppliers, etc.) requires some knowledge of the extent of the benefits, their nature and their recipients, which will accrue to participants by the adoption of alternative additional goals by the large corporations. The development of the knowledge will enable more or less direct measurements of the effects of alternative goals on corporation needs. These measurements should be developed by accounting.

NEED FOR EXPANSION

The approach being offered in this paper for the accounting study of the emerging developments may be criticized by contending that it goes beyond the accounting function, or by suggesting the frame of reference advanced is too loose and does not provide direction for eventual development. With respect to the scope of the accounting function it should be realized that the need to expand the accounting function beyond the traditional aspects of transactions is most pressing. Not only is it necessary to expand the present function if the trend toward multi-goals is to be encompassed but, in addition, it is desirable that the scope of

the field be expanded along the lines of the developing characteristics of the economy. For example, the economic aspects of transactions to which accountants have traditionally directed their attention really represent only a single level of analysis, albeit a significant level. This level of analysis represents an arbitrary limit for accounting. To illustrate:

... the support of a total population cannot be guaranteed simply by there being a technology and work habits sufficient to meet the physical needs of the adults who do the immediate productive work. [The various needs depend upon] ... a distributive framework, routes along which goods are distributed and obligations and burdens made to fall. We are accustomed to thinking of these in terms of economic institutions—markets and barter, taxes and gifts, patterns of property ownership and inheritance rights. But these are by no means merely mechanical chains of behavior, patterns or rules to be followed in order to obtain specific purely economic results. They are complex sets of human relationships, involving reciprocal obligations, motivations and sanctions. Moral ideas and ideals, virtues, goals and standards permeate this whole domain.¹⁴

Alternative Levels

Since this reasoning will be generally accepted, it is necessary to recognize that an economic transaction represents more than an exchange of economic goods or services for monetary units. Concepts of just price, fair wages, and value received are a few of the ethical considerations which are symbolically represented by respective market transactions. Perhaps each transaction should be analyzed at alternative levels involving the economic, psychological, and sociological implications which are inherent in the exchanges which took place. Professor Talcott Parsons of Harvard University offers some arguments which suggest that economic activity should be ana-

lyzed at a higher level, the sociological level, thus tending to reinforce this concept of alternative levels of analysis. In his work, *Structure and Process in Modern Societies*, he states:

The main point of reference for analyzing the structure of any social system is its value pattern. This defines the basic orientation of the system (in the present case, the organization) to the situation in which it operates; hence it guides the activities of participant individuals.

In the case of an organization as defined above, this value system must by definition be a subvalue system of a higher-order one, since the organization is always defined as a subsystem of a more comprehensive social system. Two conclusions follow. First, the value system of the organization must imply basic acceptance of the more generalized values of the superordinate system—unless it is a deviant organization not integrated into the superordinate system. Secondly, on the requisite level of generality, the most essential feature of the value system of an organization is the valuative legitimation of its place or "role" in the superordinate system.¹⁵

The adoption of multi-goals by managements may be conceived of as the attempts by these managements to fit the functions of their business units into a hierarchy of values set forth by the superordinate social system of society. If the accounting framework is to encompass the adoption of multi-goals, the framework must be extended beyond the arbitrary limit of recognizing only the economic implications of transactions. The problem remains, however, to determine the nature of the limits for the proposed framework. This problem is inherently related to the second criticism, that the proposed framework is too loosely defined to offer proper direction. If the concept of alternative levels of analysis is developed, it may remove this criticism and concurrently establish certain limits to be recognized in extending the proposed framework.

Goal Orientation

Assuming multi-goals involve alternative considerations of the implications of market exchanges, it is conceivable these goals may be classified according to whether they are oriented more toward one level of analysis than another. For example, in such an approach it could be advanced that the strictly income-oriented goals of the business enterprise represent one level of operations, perhaps the technical level, with the appropriate valuative criteria being developed from our present concepts of income. Those goals which are predominately oriented toward the general welfare of the society in the sense that achieving these goals would be beneficial to the well-being of the economy would be advanced as the second level of analysis, with the value-system including the motivating forces underlying contributions to communal welfare, to educational institutions, to common banks of research knowledge, to increased productivity, to maintaining certain levels of employment, and similar activities. The goals which are primarily oriented toward removing the lackings or needs of the individual participants of the organization might be advanced as constituting a third level for analysis, perhaps the human relations level, and could be represented by objectives dealing with such factors as employee development, security, and morale. In this manner the effects of actions taken within one frame of reference, or one value-system, might also be evaluated in terms of its effects discernible within alternative value-systems.

It may be difficult to isolate and classify goals into separate categories,

since the effects of particular actions are multiple, and the levels advanced may be incomplete. Nevertheless, the approach seems to offer a starting point toward the accounting study of the determination of the effects of additional goals on accounting procedures and accounting concepts of evaluative criteria. More importantly the approach has somewhat of a logical potential at the theory level, assuming the various goals can be analyzed and classified, since it bears a resemblance to a recently advanced framework of axiology, the study (science) of value, wherein three dimensions of valuation are set forth as *systemic*, *extrinsic*, and *intrinsic*.¹⁶

Any object or person can be evaluated according to one or each of these categories, given the concept that "a thing is good if it has the qualities that define its concept"; that is, *a thing is good when it fulfills the definition of its concept*.¹⁷ If this notion is modified slightly, an enterprise may be considered to achieve its highest potential when it has fulfilled:

- its functions as a technological unit in the sense of achieving a degree of technical efficiency as represented by a certain level of sales, financial position, growth, and income;
- its functions as a sociological unit operating within a form of superordinate system of values wherein the achievements by the firm of the more socially-oriented goals would be evaluated;
- its function as a unit for satisfying the human relations needs of its participants as indicated by the activities suggested earlier.

Accordingly, the concept of the functions of a business enterprise would require definition at the three levels indicated, with evaluation of performance in terms of the extent to which the enterprise fulfilled its concept at each and all of the alternative levels. Given the goals applicable to each level, the means adopted, the degrees of accomplishment within each of these frameworks, it would be possible to accomplish, in both direct and indirect fashion, several evaluations of a company's activities.

Behavioral Concepts

The approach suggested in this paper cannot be developed and advanced to the practical level as a complete structure until accountants have conducted extensive research into the nature of behavioral concepts. Investigation will be necessary to determine the latent psychological, sociological, and economic concepts concerning individual and organizational needs, structures of values, and resulting choices of goals. In addition more will need to be known about the nature of the concept of value, the potentialities of a science of value, and the exact manner in which the developments of a science of value could be adopted within the accounting discipline. Also, more fundamental work will be necessary in the area of measurement to consider such problems as the function and process of measurement, the various dimensions of measurement, and the determination and the calculation of the error or bias of various measurements. Finally, more fundamental concepts of verification will need to be determined concerning the types of evidence which can be accumulated

relative to alternative goals and the manner in which the verification process can be extended to the planning phases of managerial activities.

EVALUATION

It is conceivable that by following the basic propositions advanced, including the concept of multi-levels of analysis, the structure of accounting theory resulting could be as rigid and as logical as the presently conceived structure of accounting theory. Further, the propositions are capable of transcending both economic and non-economic endeavors and both private and public enterprises. Also the nature of the propositions and the approach suggested offer a means of integrating the planning, controlling, and historical phases of the accounting function. That is, planning the various activities involved in enterprise operations basically consists of the definition of the goals and the determination of the means necessary to goal accomplishments according to the structure of values of the enterprise. Controlling activities is primarily a function of adapting to the environment as actual conditions vary from expectations, with the adaptations necessarily being consistent with the original and modified structure of values. Measurements of completed activity provide the means to disclose the degrees of goal accomplishments. It is entirely possible to conceive of a single framework of disclosure which is capable of integrating these phases of enterprise activities. In this respect the evaluation of performance would include evaluations of the complete value system, and would include considerations of such items as the appropriateness

of the goals, the consistency of the means adopted, and the rationality of the expectations.

Such an integrated framework might be illustrated by considering resource allocations which are sometimes difficult to envisage as attempts to maximize profit. For example, it is not conclusive that a positive correlation exists between the satisfaction of employee needs and productivity.¹⁸ Given the goal of management, that is the expression of its responsibility to satisfy employee needs, the resource allocations assigned to the accomplishment of this goal would be separated for analysis and measured as the cost of the means applied. The nature of the expected results would vary according to whether the goal has been adopted as an intermediate goal toward a higher goal of productivity, or whether the goal is to be considered an end in itself. The latter expectation would suggest that management believes the satisfaction of employee needs is a function of the corporation.¹⁹ The results achieved would be

measured within the appropriate references of expectations.

PRACTICAL PROBLEMS

Within the present accounting framework such goals as the satisfactions of employee needs, whether as an intermediate or ultimate goal, are not considered for their direct benefits. Only the input costs are recognized during the period of investment of resources. The results in future periods of the current investments are disclosed only to the extent the inputs have a favorable or unfavorable effect upon productivity. Similar inadequacies of the present framework can be noted in the treatment of investments in research and development and in communal and societal investments. It is to practical problems such as these that the theoretical structure broadly outlined in the paper is directed. And the gap between the proposed structure and practice will be quickly bridged when the theoretical structure is filled in.

1. Melvin Anshen, paraphrasing the views of Robert Merton, "Management and Change," Part II of *Management and Corporations 1985*, ed. by Melvin Anshen and George Leland Bach (New York: McGraw-Hill, 1960), pp. 209-10.

2. Alfred de Grazia, "The Science and Values of Administration," *Administrative Science Quarterly*, March, 1961, p. 571. "The essential meaning of efficiency is evaluative: efficiency, in human or natural engineering, is always measured by a goal-achievement index."

3. American Accounting Association, *Accounting and Reporting Standards for Corporate Financial Statements and Preceding*

Statements and Supplements, 1957 Revision (Columbus, Ohio, 1957), p. 5.

4. A. C. Littleton, *Structure of Accounting Theory*, American Accounting Association, Monograph No. 5 (Urbana, Illinois, 1953), p. 30.

5. The concepts for accounting theory offered in reference 3 above are primarily concepts to underlie the measurement of income. See pp. 2-3. Similarly, standards of disclosure offered in the same reference are income-oriented. See pp. 8-9.

6. For example, see Richard Eells, *The Meaning of Modern Business* (New York: Columbia University Press, 1960); Albert Lauterbach, *Man, Motives, and Money*, 1st

- and 2nd editions (Ithaca, New York: Cornell University Press, 1954 and 1959); Marquis Childs and Douglas Cater, *Ethics in Business Society* (New York: Harper and Brothers, 1954); E. P. Learned, Lee Minton, and K. W. Underwood, "Personal Values in Business Decisions," *Management's Mission in a New Society*, ed. by D. H. Fenn, Jr. (New York: McGraw-Hill, 1959), pp. 179-215; George W. Stockings, "Institutional Factors in Economic Thinking," *American Economic Review* (March 1959), pp. 1-21; D. Mead Johnson, H. C. Nolen, H. F. Smiddy, and C. Hewitt, "Are Profits and Social Responsibilities Compatible? — A Consultation," *Business Horizons* (supplement to the *Indiana Business Review*), Summer 1959, pp. 54-64; and Howard Bowen, *Social Responsibilities of Business Men*, (New York: Harper and Brothers, 1953).
7. Friedrich A. Hayek, "The Corporation in a Democratic Society: In Whose Interest Ought It and Will It be Run?" *Management and Corporations 1985*, (New York: McGraw-Hill, 1960), p. 100.
8. E. Rostow, "To What and For What Ends is Corporate Management Responsible?" *The Corporation in Modern Society*, ed. by Edward S. Mason (Cambridge, Massachusetts: Harvard University Press, 1960), pp. 46-71, also Gerhard R. Andlinger, "The Crucible of Our Business Creeds," *Business Horizons* (supplement to the *Indiana Business Review*), Fall 1959, pp. 34-44, and Edward Mason, "The Apologetics of Managerialism," *Journal of Business*, January, 1958, pp. 1-11.
9. See the references in 6 above, also Robert L. Katz, "Toward a More Effective Enterprise," *Harvard Business Review*, March-April 1958, pp. 41-50.
10. E.g., see J. S. Slotkin, *Social Anthropology* (New York: Macmillan and Company, 1950), p. 3: "... since things differ in their value, everyone has a set of values which is his hierarchy of values, and in so far as things vary in their importance for different people, their sets of values are dissimilar."
11. Richard Eells, *op. cit.*, p. 91.
12. Donald W. Taylor, "Toward an Information Processing Theory of Motivation," *Nebraska Symposium on Motivation*, 1960, ed. by Marshall R. Jones (University of Nebraska Press, 1960), pp. 64-66.
13. A. H. Maslow, *Motivation and Personality* (New York: Harper and Brothers, 1954), pp. 69-70, also J. S. Slotkin, *op. cit.*, p. 1.
14. A. Edel and M. Edel, *Anthropology and Ethics* (Springfield, Illinois: Charles C. Thomas Publishers, 1959), p. 69.
15. Talcott Parsons, *Structure and Process in Modern Societies* (Glencoe, Illinois: The Free Press, 1960), pp. 20, 21.
16. Robert S. Hartman, "The Science of Value," in *New Knowledge in Human Values*, ed. by A. H. Maslow (New York: Harper and Brothers, 1959), pp. 13-37, especially pp. 19-20 and 25-33.
17. *Ibid.*
18. "The assumption that high levels of satisfaction of the individual's needs will be related to productivity does not seem to hold. Put in these terms it is not surprising; there is no reason to believe that the individual's goals and the organization's will coincide." Mason Haire, "Psychology and the Study of Business: Joint Behavioral Sciences," in *Social Science Research on Business: Product and Potential*, by Robert A. Dahl, Mason Haire, and Paul F. Lazarsfeld (New York: Columbia University Press, 1959), p. 83.
19. E.g., see Fred H. Blum, "Social Audit of the Enterprise," *Harvard Business Review*, March-April 1958, especially p. 77. See also Robert L. Katz, "Toward a More Effective Enterprise," *Harvard Business Review*, September-October 1960, especially p. 97. (In both references, it is the point of emphasis which is controlling.)

GORDON J. ALDRIDGE

Aging and Retirement: A Union Responsibility

*A framework of considerations for
the organization attempting to
meet the needs of its older persons*

Unions are beginning to focus their interest and responsibility concerning problems and opportunities associated with retirement and the later years. They have been slow in accepting such responsibility: the first union-sponsored program of retirement preparation was carried out only five years ago, by the Upholsterers' International Union. Since then, several unions have implemented growing interest in their retired and older members through special programs and services. The Older and Retired Workers' Department, UAW-AFL-CIO, has played a leading role in these developments, particularly with its pre-retirement counseling programs.

Both labor and management have increasingly often been indicating their concern with older and with retired workers. There is still too limited a body of tested experience for generalizations to be drawn with any security.

The chief purpose, then, of this paper is to suggest a frame of reference within which it may be possible for a union to consider appropriate programs and services.

BACKGROUND AND TRENDS

An important and relatively new fact about American society is the increasing proportion of older people to the rest of the population. Both the average age of the population and the number of older people have risen appreciably during the past fifty years. A hundred years ago only three percent of the population were sixty years old and over. Today the proportion has grown to over twelve percent, amounting to twenty million people, with the expectation that this trend will continue. If so, the changing age distribution and the greatly increased number of older people will be of utmost significance in determining the social and

economic patterns of the next half-century.

Several factors contribute to these trends. Medical science has played an important role through advances in the prevention, diagnosis and treatment of disease. Life expectancy at birth has risen from forty-nine years in 1900 to seventy years today—an increase equal to that achieved during the previous two thousand years.

A change contributing to the magnitude of the difficulties of aging is the labor force's loss of its older members because of retirement systems, increasing industrialization, and decreasing importance of agricultural employment and self-employment. So at a time when there are more older workers available, fewer are hired because of the general preference for younger workers. The proportion of men remaining in the labor force past the age of sixty-five has steadily declined. In 1890, two-thirds of the men sixty-five years of age and over were working. Today about one-third of the men of this age are still in employment.

Associated with the problems of aging is the general movement of persons from rural to urban areas. In 1860, only sixteen percent of the population lived in urban centers, that is, in communities of at least 2,500 population. Today sixty-seven percent live in urban areas. This change from rural to urban living environments is of profound significance both to the patterns of an industrial society and to the adjustments of the individual aging person. The rural scene usually represents a gradual retirement from work within an accustomed social setting, which shields or at least cushions the loss in economic and social status. In the ur-

ban center the retiring worker usually experiences abrupt separation from his work with consequent reduction of economic and social status and, often, isolation from his work-based friends and activities.

Social Difficulties

Old age is regarded differently by various societies. Honored in some, rejected in others, the old tend to be socially ignored in America. The social difficulties in aging reflect the general social problems of industrial society, that is, the manner in which they are dealt with illustrates the values by which urban life is lived. In an agricultural, family-centered society older people tended to function with more prestige. In modern industrial society in which the years of regular employment are shrinking, there is decreasing opportunity for older people to make themselves useful or even to keep themselves occupied. Urban life emphasizes individualism, reduces the significance of the family as a unifying agent, and stresses the importance of economic productivity. In the process of descending social significance, the old experience difficulties related to, but broader than, their loss of status in the labor market. The handicap of waning physical or mental abilities is real. Declining mobility, for example, may directly influence social participation.

Further, although older people may be less able to handle complex changes in their social position, they are required to face more new and confusing experiences than at any time in the previous several decades. Habits and attitudes may have to be unlearned and adjustments made to such problems as

death of spouse, reduced income, infirmity, inadequate housing, social isolation. Many social contacts are lost or seriously disturbed when an older person withdraws or is removed from the labor force. When that person is not dependent on his children and if he moves to another section of the country, almost all his important group relationships are lost.

A usual accompaniment of growing old in our society seems to be the reduction of fundamental satisfactions, not simply those stemming from economic security but those that are social-psychological: the security of moving in a familiar setting, the security of having a sense of worth, and so on. Associated with these are the major fears of the aged: fears of loneliness, of ill health, and of poverty. These underlie the emergence of difficulties in the later years, and must be borne in mind in the consideration of any program aimed at older persons.

Security and Needs

It seems clear that older persons, along with persons of any age, achieve contentment of a positive kind only when they feel secure and of some worth. The necessary conditions for any individual's sense of security are complex. In addition to a guaranteed minimum income, the ordinary person needs the assurance that he will be helped when he finds himself in unusual difficulty, whether physical, emotional or social. Further, he requires the stability that comes from moving in a reasonably familiar world, that is, a world in which he is not exposed to unknown risks and where he knows and is prepared to meet the everyday social expectations. Related to these,

he must feel that he is contributing something of recognized value to others. The significance of these needs becomes heightened in the later years.

THE UNION'S ROLE

Trade unions have expressed concern for the total lives of members, pointing to their early attention to pensions, sickness benefits, and payments to dependents, as well as their efforts to encourage governmental concern with progressive developments in such fields as education, health and welfare.

While much has been achieved through such efforts there remain unmet areas of need, especially among older workers and retired workers. In seeking development in these areas, it is clear that a central role can be played by unions. They have direct knowledge of needs and a continuing relationship with their members; they are in a unique position to assess community facilities and inadequacies and to offer service.

It is tempting to focus attention on one or another type of program, but any effective approach must take into account the wider concern. Included in the next section is a brief discussion of several facets of this concern. Certain unions are already working toward many of the indicated objectives.

General Considerations

The Older Worker. Various means of protection of the older worker are feasible, some of which can and are being written into contracts. For example:

- Bans on age discrimination and age barriers in hiring.

- Protection of seniority in layoffs, bumping, preferences in transfers to lighter work, etc.
- Specified jobs reserved for older men where possible. Jobs in industry are diverse and there are many, particularly in those involving skill rather than strength, at which older persons can be as productive as younger persons.
- Job adaptation: the possibility of redesigning jobs in relation to the capacity of older workers.
- Individualized wage adjustments outside normal collective agreements, allowing for the lessened capacity but still useful performance of an older worker.
- Preferences for older workers in vacation plans, shift choices, etc.
- Dismissal pay geared to length of service.

Flexible Retirement. For the most part, retirement in American industry tends to be mandatory at a particular age. The actual and potential waste of productivity for both worker and industry is real. The necessity for retirement age to be related to health and performance rather than to chronological age heavily outweighs administrative and other difficulties in operating a flexible retirement system. However, even where retirement is optional and related to the interests, needs and capacity of the older worker himself, this policy may not be satisfactory unless opportunities for alternative or lighter employment within the industry are available. A choice of continuing to work in heavy, strenuous employ-

ment or to retire is a limited choice indeed.

Opportunities for alternative or part-time work might be developed for those workers who have retired but wish to continue in some form of employment. Job centers for these persons, such as the Senior Achievement Center in Chicago, could be considered. Counseling and, where appropriate, retraining might be offered to persons interested in some form of continued employment.

Health. An important matter in retirement years is the cost and provision of health care. The continued participation of retired workers, often in a modified way, in various group financial and insurance plans is desirable. At present, for example, health insurance coverage is often cut off at the time when it is most likely to be needed and when the retired person's reduced income is least adequate to pay for expensive medical care. Where a plant has medical service, it should be possible without significant expense to offer retired workers minimum medical services, such as an annual check-up.

Housing. Appropriate help might be offered with respect to the housing of retired workers by the undertaking of responsibility for low rental housing projects, or the making of loans available at low interest rates for home building and buying along lines encouraged by the federal housing legislation. For infirm or disabled retirees consideration could be given to the provision of full residential and nursing care at low cost.

Special Services. Continued association with the union in various ways is an important method of preserving for

the retired worker a sense of belonging, although he is no longer a working member. The circulation of bulletins and magazines, the encouragement of frequent use of headquarters, perhaps the development of "drop-in" centers, invitations to regular meetings and possibly special meetings for retirees, are all ways of reassuring the retired worker that he is still a valued member, and do much to reduce the social isolation which many people feel in retirement.

The operation of such extended services to retired workers would require the employment of additional staff trained and experienced in this field, for example, an educator attached to union headquarters staff to develop and guide retirement counseling programs, and a group worker to develop programs in a special or community center.

RETIREMENT PREPARATION

Although relatively little has been worked out in practice, it is now generally accepted that programs of counseling and preparation for retirement can give substantial help to older people who need to plan for the years following retirement. Some pre-retirement programs have been developed by unions, such as that of UAW-AFL-CIO, and some by management, such as those developed by various firms in the Chicago area in cooperation with the Industrial Relations Center of the University of Chicago. Unions are in a strategic position for the carrying out of retirement preparation programs with their members, perhaps (but not necessarily) in cooperation with employers.

. Because of the small number of implemented programs and the necessity for such a program to be carefully geared to the particular situation, it is inadvisable to suggest a blueprint. However, certain general aspects need consideration. In any extensive preparation for a retirement program a comprehensive approach should be considered, including, for example, activity programs for persons from forty-five to sixty years of age, a focusing of preparation for the later years during the final five years of employment, and a special approach (pre-retirement counseling) to the worker in his final year or half-year of employment.

Pre-retirement Counseling

At this stage comment will be limited to the final phase, pre-retirement counseling. The main purpose of such a program is to help prepare workers for retirement: to help them to face and accept the fact of retirement and, through appropriate planning, to be ready for such retirement. Specific goals would include: helping the prospective retiree to gain an overall picture of the opportunities and the difficulties related to aging and retirement from work; the stimulation of individual interests toward suitable retirement activity; the encouragement of positive attitudes toward retirement based on knowledge of opportunities and resources for effective living. Basic to the program is the concept of retirement *to* and not *from*.

Group Meetings. The core of the preparation for retirement programs that have been developed is usually a series of from five to ten group meetings, at one- or two-week intervals.

The general pattern has been to focus the discussions around basic topics, such as introduction and orientation, nutrition and health, emotional health, financial planning, work and retirement, leisure, increasing your income, family relationships, living arrangements, and summing up.

More recent experience suggests that the purposes can be met just as effectively with five or six rather than ten sessions. A possible range of general topics in this case might be:

- Orientation: introduction, discussion of objectives and "overview" of what may be faced in retirement.
- Health: discussion of maintenance and improvement of physical and mental health, of facilities for medical care, health insurance, etc.
- Financial planning: discussion of retirement income, pension plans, social security, and the earning of money during retirement.
- Leisure: discussion of educational, recreational, and community activities.
- Family and living arrangements: discussion of the possible changes in family relationships and living arrangements, and of constructive planning for these changing conditions. Also discussion of where to live (possible migration, etc.).
- Summing up: discussion of total plan for retirement.

Additional Counseling. Along with the program of group meetings, opportunities for individual counseling and information-giving are needed. It

would seem advisable to have both individual and group counseling offered by union officers trained for this purpose. Experts may appropriately be used to answer particular questions about, for example, health problems or OASDI benefits, but the leadership will be more acceptable if located within the union rather than coming from outside persons or from management. The discussion groups need to be kept rather small, with twenty-five persons as a suggested maximum.

A point worth consideration is the inclusion of spouses in these groups, since so many domestic and family adjustments are involved in retirement. Especially in view of this, the program could be made partly social.

Older workers already retired might be asked to come back and participate in the program. This can strengthen the reality of the discussions, particularly about problems such as migration after retirement.

Perhaps the most fundamental topics and those discussed in most detail are finance and health. Whatever the choice of topics, formal lecture methods should be avoided. Discussions under union leadership, with experts functioning as resource persons, and with the use of visual aids are most likely to be successful.

Preliminary Considerations

It can scarcely be overemphasized that the establishment of any preparation for retirement program involves a good deal of study. For example, in order to test how effective any of the foregoing might be in meeting the needs of workers nearing or past retirement age, a study might be made of one group of men within six to

twelve months of retirement and of a second group already experiencing retirement. Without too elaborate a research project, it should be possible to get from these groups a picture of the anticipations and anxieties with which persons in a particular industry face the immediate prospect of retirement, and of the needs and interests of persons retired from industry. This could provide basic data for the union to consider before making any decisions about developing new policies or services for older workers in the industry and for men who have already left it.

If a program of some sort were deemed feasible it might be worthwhile to consider testing it on a pilot project basis, perhaps at two different locations: for example, a large urban area such as Detroit and a smaller locality such as might be found in northern Michigan. It would be important to develop such pilot projects in flexible and exploratory fashion, being prepared to accept, modify or reject.

In line with the suggestion that much of the leadership of such programs be union based, some forms of training and orientation would be necessary, perhaps through a university. This might involve arranging for interested and suitable union officers to

take short courses in aging and retirement, followed by special training if they are to be used in counseling or in group activity programs.

Similar institutes or workshops might be considered for foremen, to help them understand the general problems of aging and find ways of helping the older worker to utilize his skills and begin planning for retirement while still on the job.

SUMMARY

With an aging population in a society in which the role of the older person tends to be uncertain and frustrating, the problems of retirement and the later years are increasing. In order that such problems may be balanced by opportunities, it is becoming essential for thoughtful attention to be given to this area. Specific ways of attempting to meet the needs reflected by older persons must be worked out in relation to specific requirements and facilities. What has been here presented is a general statement suggesting a framework within which an individual union might look more closely into its own wishes and responsibilities, with respect to its older and retired members.

INDEX TO VOLUME 9, NUMBERS 1 TO 4—1961

AUTHORS AND ARTICLES

(Number — Page)

ALDRIDGE, GORDON J., Aging and Retirement: A Union Responsibility	4	71	GARRISON, ANNE C., Review of Lionel Casson, <i>The Ancient Mariners</i> , and Albert Bettex, <i>The Discovery of the World</i>	1	78
BEDFORD, NORTON M. (coauthor), The Emerging Theoretical Structure of Accountancy	4	60	GONZALEZ, RICHARD F., The Brazilian National Automotive Industry	4	37
BRADY, WILLIAM T., The Management of Innovation	2	7	HENRY, WILLIAM E., Conflict, Age and the Executive	2	15
BROOKER, ROBERT E., Long Range Planning	3	28	HOLLANDER, STANLEY C., Measuring the Cost and Value of Marketing	3	17
BURRELL, O. K., Review of John B. Rae, <i>American Automobile Manufacturers; The First Forty Years</i>	1	76	HUNTER, JOHN M., Review of Eugene R. Black, <i>The Diplomacy of Economic Development</i>	2	77
COLE, EDWARD N., Problems and Paradoxes in the Automotive Industry	1	7	——— Review of C. Wright Mills, <i>Listen, Yankee</i>	3	76
COLLINS, ORVIS F. (coauthor), Profiles of Government Executives ..	4	13	JONES, GARDNER M., Review of J. H. Leveson (ed.), <i>Electronic Business Machines</i>	3	76
CONDON, JUSTIN J., A General Management View of the Personnel Function	3	65	KREININ, MORDECHAI E., The Escape Clause Versus a Trade Adjustment Program	3	59
COOK, C. W., Business Leadership ..	1	29	——— Foreign Investments and Domestic Employment	1	58
COX, ELI P., The Decline of Metropolitan Retailing	2	33	LEMKE, B. C. (coauthor), Administrative Control and Executive Action	2	43
DENISE, MALCOLM L., Unemployment and Automation	3	7	——— Italy: Member of the European Economic Community	1	47
DOPUCH, NICHOLAS (coauthor), The Emerging Theoretical Structure of Accountancy	4	60	MARTIN, NORMAN H. (coauthor), Profiles of Government Executives	4	13
DROB, JUDAH, The Future of Collective bargaining in the United States	1	36	McFARLAND, DALTON E., Review of Dan H. Fenn, Jr. (ed.), <i>Management's Mission in a New Society</i>	2	76
EDWARDS, JAMES DON (coauthor), Administrative Control and Executive Action	2	43	MEAD, STUART B., Investment Companies or Mutual Funds: Which? ..	1	14
ELLIS, IRA T., Five Major Economic Problems of the 1960's	4	25	NELSON, A. THOMAS (coauthor), Security Price Forecasting	2	51
EPPERT, RAY R., Storm Signals of the Sixties	2	26	SKOUSEN, KARL M. (coauthor), Security Price Forecasting	2	51
FAMOROTI, DAVID ADEOYE, The Promise of Nigeria's Independence	2	62	SOMMERS, LAWRENCE M., U. S. Business Ventures in the Netherlands	3	51
FAYERWEATHER, JOHN, A Principled Approach to Overseas Taxation ..	4	49	VAN RIPER, PAUL P. (coauthor), Profiles of Government Executives	4	13
FERGUSON, MALCOLM P., The Corporation as Supplier to the Government	3	37	VAUGHAN, J. L., Communications for the Layman	1	63
FORD, JAMES J., Review of Morris Janowitz, <i>The Professional Soldier</i>	3	78	WARNER, W. LLOYD (coauthor), Profiles of Government Executives	4	13

CLASSIFIED LIST OF ARTICLES

(Number — Page)

Accounting

- Administrative Control and Executive Action, by James Don Edwards and B. C. Lemke . . . 2 43
- Emerging Theoretical Structure of Accountancy, The, by Norton M. Bedford and Nicholas Dopuch . . . 4 60

Administration and Industrial Organization

- Administrative Control and Executive Action, by James Don Edwards and B. C. Lemke . . . 2 43
- Business Leadership, by C W. Cook . . . 1 29
- Conflict, Age and the Executive, by William E. Henry . . . 2 15
- Corporation as Supplier to the Government, The, by Malcolm P. Ferguson . . . 3 37
- Long Range Planning, by Robert E. Brooker . . . 3 28
- Management of Innovation, The, by William T Brady . . . 2 7
- Problems and Paradoxes in the Automotive Industry, by Edward N. Cole . . . 1 7

Book Reviews

- Black, Eugene R., *The Diplomacy of Economic Development*, reviewed by John M. Hunter . . . 2 77
- Bettex, Albert, *The Discovery of the World*, reviewed by Anne C. Garrison . . . 1 78
- Casson, Lionel, *The Ancient Mariners*, reviewed by Anne C. Garrison . . . 1 78
- Fenn, Dan H., Jr. (ed.), *Management's Mission in a New Society*, reviewed by Dalton E. McFarland . . . 2 76
- Janowitz, Morris, *The Professional Soldier*, reviewed by James J. Ford . . . 3 78
- Leveson, J. H. (ed.), *Electronic Business Machines*, reviewed by Gardner M. Jones . . . 3 76
- Mills, C. M. Wright, *Listen, Yankee*, reviewed by John M. Hunter . . . 3 76
- Rae, John B., *American Automobile Manufacturers; The First Forty Years*, reviewed by O. K. Burrell . . . 1 76

Communications

- Communications for the Layman, by J. L. Vaughan . . . 1 63

Economics

- Escape Clause Versus a Trade Adjustment Program, The, by Mordechai E. Kreinin . . . 3 59
- Five Major Economic Problems of the 1960's by Ira T. Ellis . . 4 25
- Foreign Investments and Domestic Employment, by Mordechai E. Kreinin . . . 1 58
- Storm Signals of the Sixties, by Ray R. Eppert . . . 2 26
- Unemployment and Automation, by Malcolm L. Denise . . . 3 7

Government

- Corporation as Supplier to the Government, The, by Malcolm P. Ferguson . . . 3 57
- Principled Approach to Overseas Taxation, A, by John Fayerweather . . . 4 49
- Profiles of Government Executives, by W. Lloyd Warner, Paul P. Van Riper, Norman H. Martin, and Orvis F. Collins . . . 4 13

International Affairs

- Brazilian National Automotive Industry, The, by Richard F. Gonzalez . . . 4 37
- Escape Clause Versus a Trade Adjustment Program, The, by Mordechai E. Kreinin . . . 3 59
- Foreign Investments and Domestic Employment, by Mordechai E. Kreinin . . . 1 58
- Italy: Member of the European Economic Community, by B. C. Lemke . . . 1 47
- Promise of Nigeria's Independence, The, by David Adeoye Famoroti . . . 2 62
- Storm Signals of the Sixties, by Ray R. Eppert . . . 2 26
- U: S. Business Ventures in the Netherlands, by Lawrence M. Sommers . . . 3 51

Investments

- Investment Companies or Mutual Funds: Which?, by Stuart B. Mead . . . 1 14

Investments (Cont.)

- Security Price Forecasting, by A. Thomas Nelson and Karl M. Skousen 2 51

Labor-Management Relations

- Future of Collective Bargaining in the United States, The, by Judah Drob 1 36
- Unemployment and Automation, by Malcolm L. Denise 3 7

Marketing

- Decline of Metropolitan Retailing, The, by Eli P. Cox 2 33
- Measuring the Cost and Value of Marketing, by Stanley C. Hollander 3 17

- Problems and Paradoxes in the Automotive Industry, by Edward N. Cole 1 7

Personnel

- Aging and Retirement: A Union Responsibility, by Gordon J. Aldridge 4 71
- Conflict, Age and Executive, by William E. Henry 2 15
- General Management View of the Personnel Function, A, by Justin J. Condon 3 65
- Profiles of Government Executives, by W. Lloyd Warner, Paul P. Van Riper, Norman H. Martin, and Orvis F. Collins. . 4 13

(Continued from page 6)

Law in 1960-61. His article, "The Status of the Federal Government Lawyer is Important to the Entire Legal Profession," was in the *American Bar Association Journal*, April 1961.

W. Lloyd Warner is University Professor of Social Research, Michigan State University. He holds the M.A. degree from Cambridge University, and has taught at the University of Chicago, Radcliffe College, and Harvard University. Among the extensive studies of the American community in which he has participated is the distinguished Yankee City series. The present article represents in substantially un-

changed form a chapter from a forthcoming book, *The American Federal Executive*, by Professor Warner as senior author and the following colleagues: Paul P. Van Riper, Professor in the Graduate School of Business and Public Administration, Cornell University, and author of *History of the United States Civil Service*; Norman H. Martin, Professor of Management, New York University, and coauthor with Professor Warner of *Industrial Man*; and Orvis F. Collins, Assistant Professor in the Department of Personnel and Production, Michigan State University. The book will be published in 1962 by the Yale University Press.

Reprints of articles in this and in most previous issues are available at the following prices:

Single reprint	\$.50	Four to 99	\$.35 each
Two	.90	First 100	\$34.75
Three	1.20	Additional 100's	\$18.00 each

Address requests to *Business Topics*, Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, East Lansing, Michigan

